Ajman Bank PJSC

Independent auditor's report and financial statements

For the year ended 31 December 2022

These audited financial statements are subject to Central Bank of UAE approval and adoption by shareholders at the Annual General Meeting.

Ajman Bank PJSC

Independent auditor's report and financial statements
For the year ended 31 December 2022

Contents

	Pages
Independent auditor's report	**1 - 6**
Statement of financial position	**7**
Income statement	**8**
Statement of comprehensive income	**9**
Statement of changes in equity	**10**
Statement of cash flows	**11**
Notes to the financial statements	**12 - 88**

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AJMAN BANK PJSC

Report on the audit of the financial statements

Opinion

We have audited the financial statements of Ajman Bank PJSC (the "Bank"), which comprise the statement of financial position as at 31 December 2022, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2022 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report. We are independent of the Bank in accordance with the *International Code of Ethics for Professional Accountants (including International Independence Standards) (the "IESBA Code")* together with the ethical requirements that are relevant to our audit of the financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current year. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against Islamic financing and investing assets As at 31 December 2022, the Bank's gross Islamic financing and investing assets amounted to AED'000 13,125,799 (2021: AED'000 16,062,372), against which an Expected Credit Loss ("ECL") allowance of AED'000 491,681 (2021: AED'000 900,743) was recorded. We considered this as a key audit matter, as the determination of ECL under the requirements of IFRS 9 – Financial Instruments ("IFRS 9") involves significant estimation and management judgment, and this has a material impact on the financial statements of the Bank. The key areas of judgment include: 1. Categorization of Islamic financing and investing assets into Stages 1, 2 and 3 based on the identification of: (a) exposures with a significant increase in credit risk ("SICR") since their origination; and (b) individually impaired / defaulted exposures. 2. Assumptions used in the ECL model for determining probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD") including, but not limited to assessment of financial condition of counterparties, expected future cash flows, developing and incorporating forward looking assumptions, macroeconomic factors and the associated scenarios and expected probability weightages. 3. The need to apply post model overlays using expert credit judgment to reflect all relevant risk factors that might not have been captured by the ECL model. The application of these judgments continues to result in heightened estimation uncertainty around ECL calculations, and therefore affected the associated audit risk thereon as at 31 December 2022.	We obtained and updated our understanding of management's assessment of ECL allowance in respect of Islamic financing and investing assets including the Bank's internal rating model, accounting policy, model methodology including any key changes made during the year. We also compared the Bank's accounting policy and methodology for ECL allowance with the requirements of IFRS 9. We assessed the design and implementation, and tested the operating effectiveness of the key controls in relation to: - the ECL model (including governance over the model; its validation during the year; any model updates performed during the year; and approval of the key inputs, assumptions and post model overlays, if any); - the classification of financing into Stages 1, 2 and 3 and timely identification of SICR, and the determination of default/ individually impaired exposures; and - the data inputs into the ECL model. For a sample of customers, we assessed: – the internal ratings determined by management based on the Bank's internal models, and considered these assigned ratings in light of external market conditions and available industry information, and also assessed that these were consistent with the ratings used as input in the ECL model; – management's computations for ECL; and – for selected Islamic financing and investing assets, we assessed management's assessment of recoverable cash flows, including the impact of collateral, and other sources of repayment, if any.

Report on the audit of the financial statements (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss allowance against Islamic financing and investing assets (continued) Refer to the summary of significant accounting policies note 4 for the impairment of financial assets; note 5 which contains the disclosure of critical accounting judgments and key sources of estimation uncertainty relating to impairment losses on financial assets and the impairment assessment methodology used by the Bank; note 11 which contains the disclosure of impairment against Islamic financing and investing assets; and note 6 for details of credit quality analysis and key assumptions and factors considered in determination of ECL.	We assessed the appropriateness of the Bank's criteria for the determination of SICR and default, the identification of individually impaired exposures; and the resultant staging classifications. Furthermore, for a sample of exposures, we assessed the appropriateness of the corresponding staging classification of Islamic financing and investing assets as at 31 December 2022. We assessed the governance process established by the Bank and the qualitative factors considered by the Bank when applying any overlays or making any adjustments to the outputs from the ECL model, due to data or model limitations or otherwise. We assessed the reasonableness of the underlying assumptions used by the Bank in the ECL model, including forward looking assumptions. We tested the completeness and accuracy of data supporting the ECL calculations as at 31 December 2022. Where required, we involved our specialists to assist us in reviewing model calculations, evaluating interrelated inputs and assessing the reasonableness of assumptions used in the ECL model, particularly around macroeconomic variables, forecasted macroeconomic scenarios and probability weights; and of assumptions used in post model overlays. We assessed the adequacy of the disclosures in the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AJMAN BANK PJSC (continued)

Report on the audit of the financial statements (continued)

Other information

Other information consists of the information included in the Bank's Annual Report for the year ended 31 December 2022, other than the financial statements and our auditor's report thereon. Management is responsible for the other information. The Bank's Annual Report for the year ended 31 December 2022 is expected to be made available to us after the date of this auditor's report.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of management and those charged with governance for the **financial statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs and in compliance with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Decree Law No. 32 of 2021, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report on the audit of the financial statements (continued)

Auditor's responsibilities for the audit of the financial statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF AJMAN BANK PJSC (continued)

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021, we report that:

i) the Bank has maintained proper books of account;

ii) we have obtained all the information we considered necessary for the purposes of our audit;

iii) the financial statements have been prepared and comply, in all material respects, with the applicable provisions of the Bank's Memorandum and Articles of Association and the UAE Federal Decree Law No. 32 of 2021;

iv) the financial information included in the board of directors' report is consistent with the books of account of the Bank;

v) investments in shares and stocks during the year ended 31 December 2022 are disclosed in notes 13 and 14 to the financial statements;

vi) note 32 reflects material related party transactions and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2022, any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021 or of its Memorandum and Articles of Association which would have a material impact on its activities or its financial position as at 31 December 2022; and

viii) note 36 reflects the social contributions made during the year.

Further, as required by the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

For Ernst & Young

Signed by:
Anthony O'Sullivan
Partner
Registration No: 687

9 February 2023

Dubai, United Arab Emirates

Statement of financial position
as at 31 December 2022

	Notes	2022 AED'000	2021 AED'000
ASSETS			
Cash and balances with the Central Bank	9	**2,176,800**	2,185,729
Due from banks and other financial institutions	10	**1,990,329**	489,601
Islamic financing and investing assets, net	11	**12,634,118**	15,161,629
Islamic investment securities at amortised cost	12	**116,039**	-
Islamic investment securities at FVTOCI	13	**2,305,409**	2,646,658
Investment in associates	14	**88,703**	177,313
Investment properties	15	**381,064**	359,739
Property and equipment	16	**127,081**	124,057
Other Islamic assets	17	**1,290,820**	1,197,560
Total assets		**21,110,363**	22,342,286
LIABILITIES AND EQUITY			
Liabilities			
Islamic customers' deposits	18	**16,331,976**	15,263,046
Due to banks and other financial institutions	19	**1,991,773**	4,211,113
Other liabilities	20	**271,537**	233,505
Total liabilities		**18,595,286**	19,707,664
Equity			
Share capital	21	**2,100,000**	2,100,000
Statutory reserve	22	**286,331**	270,124
Investment fair value reserve		**(334,393)**	(51,930)
General impairment reserve	23	**105,810**	112,364
Retained earnings		**357,329**	204,064
Total equity		**2,515,077**	2,634,622
Total liabilities and equity		**21,110,363**	22,342,286

To the best of our knowledge, and in accordance with the applicable reporting principles for financial reporting, the financial statements present fairly in all material respects the financial position, financial performance and cash flows of the Bank.

....
H.H. Sheikh Ammar Bin Humaid Al Noaimi
Chairman

....
Mohamed Abdulrahman Amiri
Chief Executive Officer

The accompanying notes 1 to 39 form an integral part of these financial statements.

Income statement
for the year ended 31 December 2022

	Notes	2022 AED'000	2021 AED'000
Operating income			
Income from Islamic financing and investing assets	24	**673,950**	706,368
Income from Islamic investment securities	25	**83,592**	96,015
Fees, commission and other income	26	**184,788**	106,020
Total operating income before depositors' share of profit		**942,330**	908,403
Depositors' share of profits		**(287,824)**	(232,054)
Net operating income		**654,506**	676,349
Expenses			
Staff costs	27	**(225,110)**	(196,800)
General and administrative expenses	28	**(68,989)**	(62,690)
Depreciation of property and equipment	16	**(26,895)**	(25,052)
Impairment/share of loss of associates	14	**(88,610)**	(8,265)
Credit loss expense on financial assets	29	**(70,723)**	(267,382)
Impairment loss on non-financial assets	17	**(12,113)**	-
Total expenses		**(492,440)**	(560,189)
Profit for the year		**162,066**	116,160
Basic and diluted earnings per share (AED)	30	**0.077**	0.055

The accompanying notes 1 to 39 form an integral part of these financial statements.

Statement of comprehensive income
for the year ended 31 December 2022

	2022 AED'000	2021 AED'000
Profit for the year	**162,066**	116,160
Other comprehensive (loss)/income:		
Items that will not be reclassified subsequently to income statement		
Fair value (loss)/gain on equity securities at FVTOCI	**(49,375)**	31,674
	(49,375)	31,674
Items that will be reclassified subsequently to income statement		
Fair value loss on Sukuk investment securities at FVTOCI	**(246,119)**	(9,097)
Reclassification to the income statement	**13,883**	(11,679)
	(232,236)	(20,776)
Other comprehensive (loss)/income for the year	**(281,611)**	10,898
Total comprehensive (loss)/income for the year	**(119,545)**	127,058

The accompanying notes 1 to 39 form an integral part of these financial statements.

Statement of changes in equity
for the year ended 31 December 2022

	Share capital AED'000	Statutory reserve AED'000	Investment fair value reserve AED'000	General impairment reserve AED'000	Retained earnings AED'000	Total AED'000
At 1 January 2021	2,100,000	258,508	(60,355)	97,042	107,396	2,502,591
Profit for the year	-	-	-	-	116,160	116,160
Other comprehensive income	-	-	10,898	-	-	10,898
Total comprehensive income for the year	-	-	10,898	-	116,160	127,058
Transfer on disposal of equity instruments at FVTOCI	-	-	(2,473)	-	2,473	-
Transfer to statutory reserve (Note 22)	-	11,616	-	-	(11,616)	-
Transfer to general impairment reserve (Note 23)	-	-	-	15,322	(15,322)	-
Reversal of Zakat liability (Note 36)	-	-	-	-	4,973	4,973
At 31 December 2021	2,100,000	270,124	(51,930)	112,364	204,064	2,634,622
Profit for the year	-	-	-	-	162,066	162,066
Other comprehensive loss	-	-	(281,611)	-	-	(281,611)
Total comprehensive income (loss) for the year	-	-	(281,611)	-	162,066	(119,545)
Transfer on disposal of equity instruments at FVTOCI	-	-	(852)	-	852	-
Transfer to statutory reserve (Note 22)	-	16,207	-	-	(16,207)	-
Transfer from general impairment reserve (Note 23)	-	-	-	(6,554)	6,554	-
At 31 December 2022	**2,100,000**	**286,331**	**(334,393)**	**105,810**	**357,329**	**2,515,077**

The accompanying notes 1 to 39 form an integral part of these financial statements.

Statement of cash flows
for the year ended 31 December 2022

	2022	2021
	AED'000	AED'000
Cash flows from operating activities		
Profit for the year	**162,066**	116,160
Adjustments for:		
Depreciation of property and equipment	**26,895**	25,052
Amortisation of discount on investment securities at amortised cost	**(23)**	-
Credit loss expense on financial assets	**70,723**	267,382
Impairment loss on non-financial assets	**12,113**	-
Income from Islamic investment securities	**(90,630)**	(82,185)
Fair value gain on investment properties	**(9,444)**	(12,029)
Realized gain on disposal of Islamic investment securities	**7,038**	(13,830)
Impairment/share of loss of associates	**88,610**	8,265
Loss/(gain) on disposal of property and equipment	**109**	(17)
Operating cash flows before changes in operating assets and liabilities	**267,457**	308,798
Changes in operating assets and liabilities:		
Islamic financing and investing assets	**2,478,838**	1,771,644
Due from banks and other financial institutions	**(1,501,132)**	13,827
Statutory deposit with the Central Bank	**(48,695)**	(72,188)
International Murabahat with the Central Bank	**(980,000)**	1,050,000
Other Islamic assets	**(112,406)**	(959,938)
Islamic customers' deposits	**1,068,930**	1,036,883
Due to banks and other financial institutions	**(2,219,340)**	(127,470)
Other liabilities	**36,899**	(201,043)
Net cash generated (used in)/ from operating activities	**(1,009,449)**	2,820,513
Cash flows from investing activities		
Purchase of Islamic investment securities	**(823,570)**	(3,174,127)
Proceeds from sale of Islamic investment securities	**744,528**	1,863,794
Addition in investment in associates	**-**	(8,762)
Dividend received from investment in associates	**-**	740
Purchase of property and equipment	**(30,079)**	(18,123)
Proceeds from disposal of property and equipment	**51**	172
Profit income on Islamic investments securities	**97,861**	88,981
Additions to investment properties	**(11,881)**	(4,317)
Net cash used in investing activities	**(23,090)**	(1,251,642)
Net (decrease)/ increase in cash and cash equivalents	**(1,032,539)**	1,568,871
Cash and cash equivalents as at 1 January	**2,158,436**	589,565
Cash and cash equivalents as at 31 December (Note 31)	**1,125,897**	2,158,436

The accompanying notes 1 to 39 form an integral part of these financial statements.

1. General information

Ajman Bank PJSC (the "Bank") was incorporated as a Public Joint Stock Company. The registered address of the Bank is P.O. Box 7770, Ajman, United Arab Emirates ("UAE"). The Bank was legally incorporated on 17 April 2008 and was registered with the Securities and Commodities Authority ("SCA") on 12 June 2008 and obtained a license from the Central Bank of the UAE to operate as a Head Office on 14 June 2008. On 1 December 2008, the Bank obtained a branch banking license from UAE Central Bank and commenced its operations on 22 December 2008.

In addition to its Head office in Ajman, the Bank operates through nine branches and three pay offices in the UAE. The financial statements combine the activities of the Bank's head office and its branches.

The principal activities of the Bank are to undertake banking, financing and investing activities through various Islamic financing and investment products such as Murabaha, Mudarba, Musharika, Wakala, Sukuk and Ijarah. The activities of the Bank are conducted in accordance with the Islamic Sharia'a principles and within the provisions of its Memorandum and Articles of Association.

2. Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 New and amended standards and interpretations

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022 (unless otherwise stated). The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37
An onerous contract is a contract under which the unavoidable of meeting the obligations under the contract costs (i.e., the costs that the Bank cannot avoid because it has the contract) exceed the economic benefits expected to be received under it.

The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services including both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract and costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The Bank has not identified any such contracts as at 31 December 2022.

Reference to the Conceptual Framework – Amendments to IFRS 3
The amendments replace a reference to a previous version of the IASB's Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements.

The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date. The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

These amendments had no impact on the financial statements of the Bank as there were no contingent assets, liabilities or contingent liabilities within the scope of these amendments that arose during the year.

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.1 New and amended standards and interpretations (continued)

Property, Plant and Equipment: Proceeds before Intended Use – Amendments to IAS 16 Leases
The amendment prohibits entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

In accordance with the transitional provisions, the Bank applies the amendments retrospectively only to items of PP&E made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Bank as there were no sales of such items produced by property, plant and equipment made available for use on or after the beginning of the earliest period presented.

IFRS 1 First-time Adoption of International Financial Reporting Standards – Subsidiary as a first-time adopter
The amendment permits a subsidiary that elects to apply paragraph D16(a) of IFRS 1 to measure cumulative translation differences using the amounts reported in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of IFRS 1.

These amendments had no impact on the financial statements of the Bank as it is not a first-time adopter.

IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the customer and the creditor, including fees paid or received by either the customer or creditor on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

In accordance with the transitional provisions, the Bank applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment (the date of initial application).

These amendments had no impact on the financial statements of the Bank as there were no material modifications of the Bank's financial instruments during the year.

IAS 41 Agriculture – Taxation in fair value measurements
The amendment removes the requirement in paragraph 22 of IAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of IAS 41.

These amendments had no impact on the financial statements of the Bank as it did not have assets in scope of IAS 41 as at the reporting date.

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these standards, if applicable, when they become effective.

IFRS 17 – Insurance contracts
In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. IFRS 17 introduces new accounting requirements for banking products with insurance features that may affect the determination of which instruments or which components thereof will be in the scope of IFRS 9 or IFRS 17.

Credit cards and similar products that provide insurance coverage: most issuers of these products will be able to continue with their existing accounting treatment as a financial instrument under IFRS 9. IFRS 17 excludes from its scope credit card contracts (and other similar contracts that provide credit or payment arrangements) that meet the definition of an insurance contract if, and only if, the entity does not reflect an assessment of the insurance risk associated with an individual customer in setting the price of the contract with that customer.

When the insurance coverage is provided as part of the contractual terms of the credit card, the issuer is required to:
• Separate the insurance coverage component and apply IFRS 17 to it
• Apply other applicable standards (such as IFRS 9, IFRS 15 Revenue from Contracts with Customers or IAS 37 Provisions, Contingent Liabilities and Contingent Assets) to the other components

Financing contracts that meet the definition of insurance but limit the compensation for insured events to the amount otherwise required to settle the policyholder's obligation created by the contract: Issuers of such financings – e.g. a financing with waiver on death – have an option to apply IFRS 9 or IFRS 17. The election would be made at a portfolio level and would be irrevocable.
IFRS 17 is effective for reporting periods beginning on or after 1 January 2023, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17.

The Bank has completed the assessment of the impacts of adopting IFRS 17 and, also taking into consideration the scope exclusions for certain banking products, such as credit cards, in IFRS 17.7(h), it has concluded that it does not expect any material impact on its financial statements from the adoption of the new standard in 2023.

Definition of Accounting Estimates - Amendments to IAS 8
In February 2021, the IASB issued amendments to IAS 8, in which it introduces a definition of 'accounting estimates'. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted as long as this fact is disclosed.

The amendments are not expected to have a material impact on the Bank.

2. Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 Standards issued but not yet effective (continued)

Amendments to IAS 1 and IFRS Practice Statement 2
In February 2021, the IASB issued amendments to IAS 1 and IFRS Practice Statement 2 Making Materiality Judgements, in which it provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies and adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to IAS 1 are applicable for annual periods beginning on or after 1 January 2023 with earlier application permitted. Since the amendments to the Practice Statement 2 provide non-mandatory guidance on the application of the definition of material to accounting policy information, an effective date for these amendments is not necessary.

The Bank is currently revisiting its accounting policy information disclosures to ensure consistency with the amended requirements going forward.

3. Definitions

The following terms are used in the financial statements with the meaning specified:

Murabaha

Is a contract whereby the Bank (the "Seller") sells an asset to its customer (the "Purchaser"), on a deferred payment basis, after purchasing the asset and gaining possession thereof and title thereto, where the Seller has purchased and acquired that asset, based on a promise received from the Purchaser to buy the asset once purchased according to specific Murabaha terms and conditions. The Murabaha sale price comprises the cost of the asset and a pre-agreed profit amount. Murabaha profit is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding. The Murabaha sale price is paid by the Purchaser to the Seller on an installment basis over the period of the Murabaha as stated in the contract.

Wakala

Is an agreement between two parties whereby one party is a fund provider (the "Muwakkil") who provides a certain amount of money (the "Wakala Capital") to an agent (the "Wakeel"), who invests the Wakala Capital in a Sharia'a compliant manner and according to the feasibility study or investment plan submitted to the Muwakkil by the Wakeel. The Wakeel is entitled to a fixed fee (the "Wakala Fee") as a lump sum amount or a percentage of the Wakala Capital. The Wakeel may be granted any excess over and above a certain pre-agreed rate of return as a performance incentive. In principle the Wakala profit is distributed on declaration or distribution by the Wakeel. However, since the Wakala profit is always reliably estimated it is internally distributed on a time-apportioned basis over the Wakala tenure based on the Wakala Capital outstanding. The Wakeel would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Wakala Agreement; otherwise the loss would be borne by the Muwakkil, provided the Muwakkil receives satisfactory evidence that such loss was due to force majeure and that the Wakeel neither was able to predict the same nor could have prevented the negative consequences of the same on the Wakala. Under the Wakala agreement the Bank may act either as Muwakkil or as Wakeel, as the case may be.

3. Definitions (continue)

Istisna'a

Is a sale contract between two parties whereby the Bank (the "Sani" or "Seller") undertakes to construct, for its customer (the "Mustasni" or "Purchaser"), a specific asset or property (being "Al-Masnoo") according to certain pre-agreed specifications to be delivered during a pre-agreed period of time in consideration of a pre-determined price, which comprises the cost of construction and a profit amount. The work undertaken is not restricted to be accomplished by the Sani' alone and the whole or part of the construction or development can be undertaken by third parties under the control and responsibility of the Sani'. Under an Istisna'a contract the Bank could be the Sani' or the Mustasni'. Istisna'a profit (difference between the sale price of Al-Masnoo to the customer and the Bank's total Istisna'a cost) is internally accounted for on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

Mudaraba

Is a contract between two parties whereby one party is a fund provider (the "Rab Al Mal") who would provide a certain amount of funds (the "Mudaraba Capital"), to the other party (the "Mudarib"). Mudarib would then invest the Mudaraba Capital in a specific enterprise or activity deploying its experience and expertise for a specific pre-agreed share in the resultant profit, if any. The Rab Al Mal is not involved in the management of the Mudaraba activity. In principle the Mudaraba profit is distributed on declaration or distribution by the Mudarib. However, since the Mudaraba profit is always reliably estimated it is internally distributed on a time-apportioned basis over the Mudaraba tenure based on the Mudaraba Capital outstanding. The Mudarib would bear the loss in case of its default, negligence or violation of any of the terms and conditions of the Mudaraba contract; otherwise the loss would be borne by the Rab Al Mal, provided the Rab Al Mal receives satisfactory evidence that such loss was due to force majeure and that the Mudarib neither was able to predict the same nor could have prevented the negative consequences of the same on the Mudaraba. Under the Mudaraba contract the Bank may act either as Mudarib or as Rab Al Mal, as the case may be.

Musharaka

Is an agreement between the Bank and its customer, whereby both parties contribute towards the capital of the Musharaka (the "Musharaka Capital"). The Musharaka Capital may be contributed in cash or in kind, as valued at the time of entering into the Musharaka. The subject of the Musharaka may be a certain investment enterprise, whether existing or new, or the ownership of a certain property either permanently or according to a diminishing arrangement ending up with the acquisition by the customer of the full ownership. The profit is shared according to a pre-agreed profit distribution ratio as stipulated under the Musharaka agreement. In principle Musharaka profit is distributed on declaration or distribution by the managing partner. However, since the Musharaka profit is always reliably estimated, it is internally distributed on a time-apportioned basis over the Musharaka tenure based on the Musharaka Capital outstanding. Whereas the loss, if any, is shared in proportion to their capital contribution ratios, provided in the absence of the managing partner's negligence, breach or default, the Bank receives satisfactory evidence that such loss was due to force majeure and that the managing partner neither was able to predict the same nor could have prevented the negative consequences of the same on the Musharaka.

3. Definitions (continued)

Ijarah

Is an agreement whereby the Bank (the "Lessor") leases an asset to its customer (the "Lessee") (after purchasing or acquiring the specified asset, either from a third party seller or from the customer itself, according to the customer's request and based on his promise to lease), against certain rental payments for specific lease term or periods, payable on fixed or variable rental basis.

The Ijarah agreement specifies the leased asset, duration of the lease term, as well as, the basis for rental calculation and the timing of rental payment. The Lessee undertakes under this agreement to renew the lease periods and pay the relevant rental payment amounts as per the agreed schedule and applicable formula throughout the lease term.

The Lessor retains the ownership of the asset throughout the lease term. At the end of the lease term, upon fulfillment of all the obligations by the Lessee under the Ijarah agreement, the Lessor will sell the leased asset to the Lessee at nominal value based on a sale undertaking given by the Lessor.

Ijarah rentals accrue upon the commencement of the lease and continues throughout the lease term based on the outstanding fixed rentals (which predominantly represent the cost of the leased assets).

Sukuk

These comprise asset backed, Sharia'a compliant trust certificates.

4. Summary of significant accounting policies

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and applicable requirements of United Arab Emirates laws, including the UAE Federal Decree Law No. 32 of 2021 and Decretal Federal Law No.14 of 2018.

(b) Basis of preparation

The financial statements of the Bank have been prepared on the historical cost basis except for certain financial instruments and investment properties that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for assets, goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank takes into account when pricing the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for measurements that have some similarities to fair value but are not fair value such as value in use in IAS 36.

4. Significant accounting policies (continued)

(b) Basis of preparation (continued)

In addition, for financial reporting purposes, fair value measurements are categorised into level 1, 2 or 3 based on the degree to which the inputs to fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than that quoted prices included within Level 1, that are observable for the asset or liability either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands dirham, except when otherwise indicated.

The principal accounting policies are set out below:

(c) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with central and other banks and highly liquid financial assets with original maturities of three months or less from the acquisition date that are subject to an insignificant risk of change in their fair value, and are used by the Bank in the management of its short term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(d) Due from banks

Due from banks are stated at cost less any amounts written-off and allowance for impairment, if any.

(e) Financial instruments

Financial assets and liabilities are recognised when Bank becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management.

The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual revenue, maintaining a particular profit rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected
- The frequency, volume and timing of sales in prior periods, the reasons for such sales; and
- Its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at FVTPL. Transaction costs directly attributable to the acquisition of financial assets classified as at FVTPL are recognised immediately in profit or loss.

All recognised financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Specifically:

(i) financing instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal amount outstanding (SPPI), are subsequently measured at amortised cost;

(ii) financing instruments that are held within a business model whose objective is both to collect the contractual cash flows and to sell the instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI);

(iii) all other financing instruments (e.g. instruments managed on a fair value basis, or held for sale) and equity investments are subsequently measured at FVTPL. However, the Bank may make the following irrevocable election/designation at initial recognition of a financial asset on an asset-by-asset basis;

(iv) the Bank may irrevocably elect to present subsequent changes in fair value of an equity investment that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies, in other comprehensive income (OCI); and

(v) the Bank may irrevocably designate a financing instruments that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch (referred to as the fair value option).

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

Islamic financing and investing assets

Islamic financing and investing assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Financing and receivables (including cash and cash equivalents, Islamic finance receivables, due from banks and other financial institutions, and other receivables) are measured at amortised cost using the effective profit method, less any impairment.

Profit income is recognised by applying the effective profit rate, except for short-term receivables when the effect of discounting is immaterial.

(i) Financing instruments at amortised cost or at FVTOCI

The Bank assesses the classification and measurement of a financial asset based on the contractual cash flow characteristics of the asset and the Bank's business model for managing the asset.

For an asset to be classified and measured at amortised cost or at FVTOCI, its contractual terms should give rise to cash flows that are solely payments of principal and profit on the principal outstanding (SPPI).

For the purpose of SPPI test, principal is the fair value of the financial asset at initial recognition. That principal amount may change over the life of the financial asset (e.g. if there are payments of principal). Profit consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic financing risks and costs, as well as a margin. The SPPI assessment is made in the currency in which the financial asset is denominated.

Contractual cash flows that are SPPI are consistent with a basic financing arrangement. Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are SPPI. An assessment of business models for managing financial assets is fundamental to the classification of a financial asset. The Bank determines the business models at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Bank's business model does not depend on management's intentions for an individual instrument, therefore the business model assessment is performed at a higher level of aggregation rather than on an instrument-by-instrument basis.

The Bank has more than one business model for managing its financial instruments which reflect how the Bank manages its financial assets in order to generate cash flows. The Bank's business models determine whether cash flows will result from collecting contractual cash flows, selling financial assets or both.

At initial recognition of a financial asset, the Bank determines whether newly recognised financial assets are part of an existing business model or whether they reflect the commencement of a new business model. The Bank reassess its business models each reporting period to determine whether the business models have changed since the preceding period. For the current and prior reporting period the Bank has not identified a change in its business models.

When a financing instrument measured at FVTOCI is derecognised, the cumulative gain/loss previously recognised in OCI is reclassified from equity to profit or loss. In contrast, for an equity investment designated as measured at FVTOCI, the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss but transferred within equity.

Financing instruments that are subsequently measured at amortised cost or at FVTOCI are subject to impairment.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(ii) Financial assets at FVTPL

Financial assets at FVTPL are:

(i) assets with contractual cash flows that are not SPPI; or/and
(ii) assets that are held in a business model other than held to collect contractual cash flows or held to collect and sell; or
(iii) assets designated at FVTPL using the fair value option.

These assets are measured at fair value, with any gains/losses arising on remeasurement recognised in profit or loss.

Fair value option

A financial instrument with a reliably measurable fair value can be designated as FVTPL (the fair value option) on its initial recognition even if the financial instrument was not acquired or incurred principally for the purpose of selling or repurchasing. The fair value option can be used for financial assets if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities, or recognizing related gains and losses on a different basis (an "accounting mismatch"). The fair value option can be elected for financial liabilities if: (i) the election eliminates an accounting mismatch; (ii) the financial liability is part of a portfolio that is managed on a fair value basis, in accordance with a documented risk management or investment strategy; or (iii) there is an embedded derivative in the financial or non-financial host contract and the derivative is not closely related to the host contract. These instruments cannot be reclassified out of the FVTPL category while they are held or issued. Financial assets designated as FVTPL are recorded at fair value and any unrealized gains or losses arising due to changes in fair value are included in investment income.

(iii) Reclassifications

If the business model under which the Bank holds financial assets changes, the financial assets affected are reclassified. The classification and measurement requirements related to the new category apply prospectively from the first day of the first reporting period following the change in business model that results in reclassifying the Bank's financial assets. During the current period and previous accounting period, there was no change in the business model under which the Bank holds financial assets and therefore no reclassifications were made. Changes in contractual cash flows are considered under the accounting policy on modification and derecognition of financial assets described below.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(iv) Impairment

The Bank recognises loss allowances for ECLs on the following financial instruments that are not measured at FVTPL:

- Due from banks and other financial institutions
- Islamic investments securities at FVTOCI
- Islamic financing and investing assets
- Other Islamic assets
- Off balance sheet exposures subject to credit risk

No impairment loss is recognised on Islamic equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).
- A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.
- ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Bank under the contract and the cash flows that the Bank expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's EPR.
- for undrawn financial commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Bank if the holder of the commitment draws down the finance and the cash flows that the Bank expects to receive if the finance is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed financing instrument less any amounts that the Bank expects to receive from the holder, the customer or any other party.

The Bank measures ECL on an individual basis, or on a collective basis for portfolios of finances that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original EPR, regardless of whether it is measured on an individual basis or a collective basis.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(v) Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the customer or issuer;
- a breach of contract such as a default or past due event;
- the financer of the customer, for economic or contractual reasons relating to the customer's financial difficulty, having granted to the customer a concession that the financer would not otherwise consider;
- the financer of the customer has downgraded the ratings because of deterioration in financial condition of the customer; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead; the combined effect of several events may have caused financial assets to become credit-impaired. The Bank assesses whether financing instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate financing instruments are credit impaired, the Bank considers factors such as delinquency, watchlist indication, restructuring flag, deterioration in credit ratings and the ability of the customer to raise funding.

A financial asset is considered credit-impaired when a concession is granted to the customer due to a deterioration in the customer's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikeliness to pay indicators and a backstop if amounts are overdue for 90 days or more. However, the cases where the impairment is not recognised for assets beyond 90 days overdue are supported by reasonable information.

(vi) Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Bank recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(vii) Definition of default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of a significant increase in credit risk.

The Bank considers the following as constituting an event of default:

- the customer is past due more than 90 days on any material credit obligation to the Bank; or
- the customer is unlikely to pay its credit obligations to the Bank in full.

The definition of default is appropriately tailored to reflect different characteristics of different types of assets. Further, there are cases where the criteria of 90 days overdue are rebutted based on management assessment. When assessing if the customer is unlikely to pay its credit obligation, the Bank takes into account both qualitative and quantitative indicators. The information assessed depends on the type of the asset, for example in corporate financing a qualitative indicator used is the 'watchlist flag', which is not used for retail financing. Quantitative indicators, such as overdue status and non-payment on another obligation of the same counterparty are key inputs in this analysis. The Bank uses a variety of sources of information to assess default which are either developed internally or obtained from external sources.

(viii) Significant increase in credit risk

The Bank monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk the Bank will measure the loss allowance based on lifetime rather than 12-month ECL. The Bank's accounting policy is not to use the practical expedient that financial assets with 'low' credit risk at the reporting date are deemed not to have had a significant increase in credit risk. As a result, the Bank monitors all financial assets, issued financial commitments and financial guarantee contracts that are subject to impairment for significant increase in credit risk.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank compares the internal risk rating of the financial instrument at the reporting date based on the remaining maturity of the instrument with the internal risk rating when the financial instrument was first recognised. In making this assessment, the Bank considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Bank's historical experience and expert credit assessment including forward-looking information.

For corporate financing, forward-looking information includes the future prospects of the macroeconomic indicators like Crude Oil price, GDP growth rate, real estate price index, etc. obtained from regulatory guidelines, economic expert reports, financial analysts, governmental bodies and other similar organisations, as well as consideration of various internal and external sources of actual and forecast economic information. For retail, financing forward looking information includes the same economic forecasts as corporate financing with additional forecasts of local economic indicators.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(viii) Significant increase in credit risk (continued)

The Bank allocates its counterparties to a relevant internal credit risk grade depending on their credit quality. The Bank considers the credit risk upon initial recognition of asset and whether there has been a significant increase in it on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Bank compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal risk grade;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customers in the group and changes in the operating results of the customer; and
- Macroeconomic information: in its models, the Bank relies on a broad range of forward looking information as economic inputs, such as: average crude oil prices, real estate Dubai and Abu Dhabi, inflation, GDP growth rate etc. along with various transformations of the same. The inputs and models used for calculating expected credit losses may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are made as temporary adjustments using expert credit judgement.

Regardless of the analysis above, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

The qualitative factors that indicate significant increase in credit risk are reflected in PD models on a timely basis.

However, the Bank still considers separately some qualitative factors to assess if credit risk has increased significantly. For corporate financing there is particular focus on assets that are included on a 'watch list' given an exposure is on a watch list once there is a concern that the creditworthiness of the specific counterparty has deteriorated.

For retail financing, when an asset becomes 30 days past due, the Bank considers that a significant increase in credit risk has occurred and the asset is in stage 2 of the impairment model, i.e. the loss allowance is measured as the lifetime ECL.

(ix) Modification and derecognition of financial assets

A modification of a financial asset occurs when the contractual terms governing the cash flows of a financial asset are renegotiated or otherwise modified between initial recognition and maturity of the financial asset. A modification affects the amount and/or timing of the contractual cash flows either immediately or at a future date. In addition, the introduction or adjustment of existing covenants of an existing finance would constitute a modification even if these new or adjusted covenants do not yet affect the cash flows immediately but may affect the cash flows depending on whether the covenant is or is not met (e.g. a change to the increase in the profit rate that arises when covenants are breached).

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(ix) Modification and derecognition of financial assets (continued)

The Bank renegotiates finances to customers in financial difficulty to maximise collection and minimise the risk of default. A finance forbearance is granted in cases where although the customer made all reasonable efforts to pay under the original contractual terms, there is a high risk of default or default has already happened and the customer is expected to be able to meet the revised terms. The revised terms in most of the cases include an extension of the maturity of the finance, changes to the timing of the cash flows of the finance (principal and profit payment), reduction in the amount of cash flows due (principal and profit forgiveness) and amendments to covenants. The Bank has an established forbearance policy which applies for corporate and retail financing.

When a financial asset is modified the Bank assesses whether this modification results in derecognition. In accordance with the Bank's policy a modification results in derecognition when it gives rise to substantially different terms.

In the case where the financial asset is derecognised the loss allowance for ECL is remeasured at the date of derecognition to determine the net carrying amount of the asset at that date. The difference between this revised carrying amount and the fair value of the new financial asset with the new terms will lead to a gain or loss on derecognition. The new financial asset will have a loss allowance measured based on 12-month ECL except in the rare occasions where the new finance is considered to be originated credit impaired. This applies only in the case where the fair value of the new finance is recognised at a significant discount to its revised par amount because there remains a high risk of default which has not been reduced by the modification. The Bank monitors credit risk of modified financial assets by evaluating qualitative and quantitative information, such as if the customer is in past due status under the new terms.

Where a modification does not lead to derecognition the Bank calculates the modification gain/loss comparing the gross carrying amount before and after the modification (excluding the ECL allowance). Then the Bank measures ECL for the modified asset, where the expected cash flows arising from the modified financial asset are included in calculating the expected cash shortfalls from the original asset.

The Bank derecognises a financial asset only when the contractual rights to the asset's cash flows expire (including expiry arising from a modification with substantially different terms), or when the financial asset and substantially all the risks and rewards of ownership of the asset are transferred to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognise the financial asset and also recognises a collateralised financing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain/loss that had been recognised in OCI and accumulated in equity is recognised in profit or loss, with the exception of equity investment designated as measured at FVTOCI, where the cumulative gain/loss previously recognised in OCI is not subsequently reclassified to profit or loss.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial assets (continued)

(x) Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a customer failing to engage in a payment plan with the company. The company categorises a finance or receivable for write off after almost all possible avenues of payments have been exhausted. However where finances or receivables have been written off, the company continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial liabilities

(i) Classification and subsequent measurement

In both the current period and prior period, financial liabilities are classified and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to Islamic derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and financial commitments.

Effective profit method

The effective profit method is a method of calculating the amortised cost of a financial liability and of allocating profit expense over the relevant period. The effective profit rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective profit rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Financial liabilities (continued)

(ii) Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Bank and its original financer of financing instruments with substantially different terms, as well as substantial modifications of the terms of existing liabilities, are accounted for as an extinguishment of the original financial liability and a recognition of a new financial liability. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective profit rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability.

In addition, other qualitative factors such as, currency that the instrument is denominated in, changes in the type of profit rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of financing instruments or modification of terms is accounted for as an extinguishment, any cost or fees incurred as recognised as part of the gain or loss on extinguishment. If an exchange or modification is not accounted for as an extinguishment, any cost or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified customer fails to make payments when due in accordance with the terms of a financing instrument.

Financial guarantee contracts issued by a Bank entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Bank's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions on the statement of financial position and the remeasurement is presented in other revenue.

The Bank has not designated any financial guarantee contracts as at FVTPL.

4. Significant accounting policies (continued)

(e) Financial instruments (continued)

Islamic derivative financial instruments

Islamic derivative financial instruments are primarily used in trading activities. These are also used to manage our exposure to profit, currency, credit and other market risks. All Islamic derivative financial instruments are recorded in statement of financial position at fair value.

When Islamic derivative financial instruments are used in trading activities, the realized and unrealized gains and losses on these Islamic derivative financial instruments are recognized in other income. Islamic derivative financial instruments with positive fair values are presented as asset and Islamic derivative financial instruments with negative fair values are reported as liabilities. In accordance with our policy for offsetting financial assets and financial liabilities, the net fair value of certain Islamic derivative assets and liabilities are reported as an asset or liability, as appropriate. Valuation adjustments are included in the fair value of Islamic derivative assets and Islamic derivative liabilities. Premiums paid and premiums received are part of Islamic derivative assets and Islamic derivative liabilities, respectively. When derivatives are used to manage our own exposures, we determine for each derivative whether hedge accounting can be applied.

(f) Investment in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate is initially recognised in the statement of financial position at cost and adjusted thereafter to recognise the Bank's share of the profit or loss and other comprehensive income of the associate. When the Bank's share of losses of an associate exceeds the Bank's interest in that associate (which includes any long-term interests that, in substance, form part of the Bank's net investment in the associate), the Bank discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Bank has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Bank's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Bank's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount.

The Bank discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Bank retains an interest in the former associate and the retained interest is a financial asset, the Bank measures the retained interest at fair value at that date is regarded as its fair value on initial recognition in accordance with IFRS 9.

4. Significant accounting policies (continued)

(f) Investment in associates (continued)

The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. Gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the associate.

Unrealized gains and losses resulting from transactions between the Bank and the associate are eliminated to the extent of the interest in the associate.

(g) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Subsequent costs

The cost of replacing part of an item of property or equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The costs of the day-to-day servicing of property and equipment are recognised in the income statement as incurred.

Depreciation

Depreciation is recognised in statement of income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives. Land is not depreciated.

The estimated useful lives for the current and comparative periods are as follows:

	Years
Leasehold improvements	7
Computers equipment and software	3 to 7
Furniture, fitting and equipment	5
Vehicles	5
Right-of-use assets	2 to 5
Buildings	25

Depreciation methods, useful lives and residual values are reassessed at the reporting date. Gain and losses on disposals are determined by comparing proceeds with the carrying amount. The differences are included in the income statement.

Capital work in progress is stated at cost. When commissioned, capital work in progress is transferred to the appropriate asset category and depreciated in accordance with the Bank's accounting policies.

4. Significant accounting policies (continued)

(h) Investment properties

Investment properties is held to earn rental income and/or capital appreciation. Investment properties includes cost of initial purchase, developments transferred from property under development, subsequent cost of development, and fair value adjustments. Investment properties is reported at valuation based on fair value at the end of the reporting period. The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. The fair value is determined on a periodic basis by independent professional valuers. Fair value adjustments on investment properties are included in the income statement in the period in which these gains or losses arise.

All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. The fair value of Investment properties is based on the nature, location and condition of the specific asset.

(i) Assets acquired in settlement of Islamic financing and investing assets

The Bank occasionally acquires real estate and other collateral in settlement of Islamic financing and investing assets. Such real estate and other collateral are stated at the lower of the net realisable value of Islamic financing and investing assets and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation are recognised in the income statement.

(j) Islamic customers' deposits, due to banks and other financial institutions and other liabilities

Islamic customers' deposits, due to banks and other financial institutions and other liabilities are initially recognised at fair value and subsequently measured at amortised cost.

(k) Provisions and contingent liabilities

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Bank's control. Contingent liabilities are not recognised in the financial statements but are disclosed in the notes to the financial statements.

4. Significant accounting policies (continued)

(l) Acceptances

Acceptances are recognised as financial liabilities in the statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments with respect to acceptances have been accounted for as financial assets and financial liabilities.

(m) Revenue recognition

Income from Islamic financing and investing assets and Islamic investments securities, including fees which are considered an integral part of the effective profit of a financial instrument, are recognized in the income statement using the effective profit rate method.

(n) Fees, commission and other income

Fees, commission and other income from banking services provided by the Bank are recognized on an accrual basis when the service has been provided.

(o) Dividend income

Dividend income is recognised when the Bank's right to receive the payment is established.

(p) Employees' benefits

The Bank provides end of service benefits for its expatriate employees. The entitlement to these benefits is based upon the employees' length of service and completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment.

Pension and national insurance contributions for the U.A.E. citizens are made by the Bank in accordance with Federal Decree Law No. 2 of 2000.

(q) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed for possible reversal of impairment at each reporting date.

(r) Foreign currency transactions

Transactions denominated in foreign currencies are translated into AED at the rates of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the foreign exchange rates ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated into AED at the foreign exchange rates ruling on the date of the transaction. Realised and unrealised exchange gains and losses have been dealt within the income statement.

4. Significant accounting policies (continued)

(s) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is a person or group of persons that allocates resources and assesses the performance of the operating segments of an entity. The Bank has determined the Executive Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated in head office. Income and expenses directly associated with each segment are included in determining business segment performance.

(t) Fiduciary activities

The Bank acts as trustee/manager and in other capacities that result in holding or placing of assets in a fiduciary capacity on behalf of trusts or other institutions. Such assets and income arising thereon are not included in the Bank's financial statements as they are not assets of the Bank.

(u) Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Branches intend to settle on a net basis, or to realize the asset and settle the liability simultaneously.

(v) Fair value measurement principles

Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognized in the income statement on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities at an ask price.

4. Significant accounting policies (continued)

(v) Fair value measurement principles (continued)

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, using the present value from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

5. Critical accounting judgments and key sources of estimation uncertainty

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgment, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events. Accounting policies and management's judgments for certain items are especially critical for the Bank's results and financial situation due to their materiality.

Critical judgments in applying the Bank's accounting policies

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognized in financial statements:

Business model assessment

Business model assessment: Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with7 the objective of the business for which the asset was held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continue to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5. Critical accounting judgments and key sources of estimation uncertainty (continued)

Critical judgments in applying the Bank's accounting policies (continued)

Significant increase of credit risk

Significant increase of credit risk: As explained in Note 6, ECL is measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. However, in assessing whether the credit risk of an asset has significantly increased the Bank takes into account qualitative and quantitative reasonable and supportable forward looking information.

Establishing groups of assets with similar credit risk characteristics

Establishing groups of assets with similar credit risk characteristics: When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk, stage classification etc.). The Bank monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that if there is a credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets.

Models and assumptions used

The Bank uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

a) Classification of and measurement of financial assets and liabilities

The Bank classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the statement of financial position.

The Bank determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every statement of financial position date.

In measuring financial assets and liabilities, some of the Bank's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Bank uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Bank engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

b) Fair value measurement

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

5. Critical accounting judgments and key sources of estimation uncertainty (continued)

Critical judgments in applying the Bank's accounting policies (continued)

Models and assumptions used (continued)

c) Islamic derivative financial instruments

Subsequent to initial recognition, the fair value of Islamic derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognized pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

(i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

Determining whether it is reasonably certain that an extension or termination option in a lease agreement will be exercised

Extension and termination options are included in a number of tenancy lease agreement entered into the Bank. These terms are used to maximise operational flexibility in terms of managing contracts. In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment.

Key sources of estimation uncertainty

The following are key estimations that the management has used in the process of applying the Bank's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario: When measuring ECL the Bank uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

- Probability of default: PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

- Loss Given Default: LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

- Determination of appropriate rate to discount the lease payments:

6. Financial risk management

The Bank's activities expose it to a variety of financial risks and involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is, therefore, to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

Risk is inherent in the Bank's activities but it is managed through a process of ongoing identification, measurement and monitoring, and is subject to risk limits and other controls.

The Bank's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of realizable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Risk Management Framework

Risk management is carried out by the Risk Management Division under policies that are approved by the Board of Directors. The Risk Management Division is responsible for the independent review of risk management and the control environment. The most important types of risks that the Bank is exposed to are, credit and concentrations risk, market risk and liquidity risk. Market risk includes profit rate risk, currency risk and price risk. The Bank is also subject to operational risks. The independent risk control process does not however, monitor business risks such as changes in the environment, technology and industry. These risks are monitored through the Bank's strategic planning process.

6.1 Risk management structure

Board of directors bears the ultimate responsibility for risk management within the Bank through board approved risk management policy. However, all the necessary organizational structures are created to facilitate the effectiveness of proper risk management function. Separate independent bodies are responsible for managing and monitoring risks of the Bank

Board of Directors

The Board of Directors are responsible for the overall risk management approach and for approving the risk management strategies and principles. Board ensure appropriate risk management framework, internal control, compliance and reporting systems are in place and operating efficiently.

Executive committee

Executive committee acts as the Board's senior executive management assuring that the Board meets its strategic and operational objectives.

6. Financial risk management (continued)

6.1 Risk management structure (continued)

Audit Committee

The Audit committee consists of independent Board members and its purpose is to assist the Board in fulfilling its oversight responsibility by:

- Overseeing the Bank's financial reporting processes, maintaining accounting policies, reviewing and approving the financial information;
- Reviewing reports on the internal controls;
- Managing the relationship with the Bank's external auditors; and
- Reviewing the internal audit reports and monitors control issues of major significance of the Bank.

Internal Sharia Supervisory Committee (ISSC)

The ISSC is responsible for Sharia governance in terms of overview and approval of products and documentation in relation to Sharia compatibility and overall Sharia compliance as mentioned in Standard Re. Shari'ah Governance – issued by Central Bank of UAE under the notice No. CBUAE/BSD/N/2020/2123.

Risk Committee of the Board ("RC")

The RCC assists the Board of Directors in discharging the responsibilities with respect to ensuring that bank activities comply with established risk appetite framework along with statutory law and regulations, the system of internal control over financial reporting and with the Bank's code of conduct.

Compliance Committee of the Board ("CC")

Compliance Committee assist the Board in its oversight of the Bank's compliance with laws and regulation issued by CBUAE. Oversee the Bank's policies, procedures, and training relating to compliance and simultaneously evaluate the reports of examination, and ongoing communication from CBUAE.

Credit Committee

Credit committee manages the credit risk of the Bank by continuous review of credit limits, policies and procedures, the approval of specific exposures and work out situation, constant revaluation of the financing portfolio and the sufficiency of provisions thereof.

Asset and Liability Committee ("ALCO")

The objective of ALCO is to derive the most appropriate strategy for the Bank in terms of the mix of assets and liabilities given its expectations of the future and the potential consequences of profit rate movements, liquidity constraints, and foreign exchange exposure and capital adequacy. The ALCO is also responsible to ensure that all strategies conform to the Bank's risk appetite and levels of exposure as determined by the Board of Directors.

Remuneration Committee

Remuneration committee manages the resources, performance and requirement of individuals required by Bank on time to time basis.

6. Financial risk management (continued)

6.1 Risk management structure (continued)

Risk Management Division ("RMD")

The RMD is responsible for implementing and maintaining risk related procedure to ensure independent control process. Department monitor portfolio credit risk, market & liquidity risk, operational risk against the risk appetite framework established for the Bank.

Internal Audit

Management processes at the Bank are audited periodically by the internal audit function, which examines both the adequacy of the procedures and the Bank's compliance with the procedures. Internal audit discusses the results of its assessments with management, and reports its findings and recommendations directly to the Audit Committee.

6.1.1 Risk measurement and reporting systems

The Bank measures credit risk using current IFRS-9 regulations, where macro-economic models are used to do the early recognition of impairment. Whereas market, liquidity and operational risks are measured using standards currently enforced under regulatory guidelines. Further, the Bank uses quantitative analysis and methods to estimate business risk and revise risk strategies based on risk appetite. These analysis and methods reflect the expected loss likely to arise in normal course of business where as Bank also estimate unexpected losses which might occur due to unforeseen events based on statistical techniques and probabilities associated with it. Bank also runs multiple stress scenarios based on extreme macroeconomic events which are likely to occur, as well as idiosyncratic risk factors which are specific to Bank. This helps the Bank in doing its own internal assessment of the capital requirement and in turn establish the risk appetite framework of the Bank.

Monitoring and controlling risks is primarily performed in relation to limits established by the Bank. These limits reflect the business strategy and market environment of the Bank as well as the level of risk that the Bank is willing to accept, with additional emphasis on selected industries.

6.1.2 Credit risk and concentrations of risk

Credit risk is defined as the risk that the Bank's customers, clients or counter parties fail to perform or are unwilling to pay profit, repay the principal or otherwise to fulfil their contractual obligations under finance agreements or other credit facilities, thus causing the Bank to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Bank, thereby resulting in the value of the assets to fall. As credit risk is the Bank's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

6. Financial risk management (continued)

6.1 Risk management structure (continued)

6.1.2 Credit risk and concentrations of risk (continued)

Credit risk measurement

The Bank's Risk Management Framework assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparties. The Framework has been developed internally which combines statistical analysis with credit officer judgment. The models are validated periodically.

The Bank's exposure to credit risk is measured on an individual counterparty basis, as well as by group of counterparties that share similar attributes. To reduce the potential of risk concentration, credit limits have been established and are monitored in the light of changing counterparty and market conditions.

Management of credit risk

The Bank's Credit Risk Management Framework includes:

- Establishment of an authorization structure and limits for the approval and renewal of credit facilities;
- Reviewing and assessing credit exposures in accordance with the authorization structure and limits, prior to facilities being sanctioned to customers; renewals and reviews of facilities are subject to the same review process;
- Diversification of financing and investment activities;
- Limiting concentrations of exposure to industry sectors, geographic locations and counterparties; and
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries and countries and reviewing limits in accordance with the Bank's risk management strategy and market trends.

6.1.3 Significant increase in credit risk

The Bank monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Bank will measure the loss allowance based on lifetime rather than 12-month ECL.

Internal credit risk ratings

In order to adequately assess the credit exposure profile, the Bank has acquired a globally acclaimed system for obligor and facility internal risk rating. It facilitates the analysis of credit proposals by putting a robust risk rating system as well as structurally supports the Bank in estimating various elements of risk. The system is comprised of 22 notch obligor risk rating in ten scales from 1 to 10. Such a credit risk grades are defined using both quantitative and qualitative factors that are indicative of default. The table below provides a mapping of the Bank's internal credit risk grades to external ratings.

6. Financial risk management (continued)

6.1 Risk management structure (continued)

6.1.3 Significant increase in credit risk (continued)

Internal credit risk ratings (continued)

Bank's credit risk grades	Agency rating	Description
1	AAA	Very Low credit risk
2	AA+ to AA-	Very Low credit risk
3	A+ to A-	Low credit risk
4	BBB+ to BBB-	Moderate credit risk
5	BB+ to BB-	Substantial credit risk
6	B+ to B-	High credit risk
7	CCC+ to C	Very High credit risk
8	DDD	Substandard
9	DD	Doubtful
10	D	Impaired

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. The exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

The following data are typically used to monitor the Bank's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies; and
- Information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Bank analyses all data collected using statistical models and estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as oil prices, non-oil commodities indexes, inflation, oil production, house prices in the United Arab Emirates and the tourism indicators. The Bank generates a 'base case' scenario of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. The Bank then uses these forecasts, which are probability-weighted, to adjust its estimates of PDs. The probability weights used are 65% for Base case, 20% for Upturn and 15% for Downturn scenario across all portfolios.

The Bank uses different criteria to determine whether credit risk has increased significantly per portfolio of assets. The criteria used are both quantitative changes in PDs as well as qualitative.

6. Financial risk management (continued)

6.1 Risk management structure (continued)

6.1.4 Measurement of ECL

The key elements used in the computation of ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

These elements are derived from our internally developed statistical models based on our historical data and the data provided by the Central Bank of UAE. They are adjusted to reflect probability-weighted forward-looking information.

The table below summarises the principal macroeconomic indicators included in the economic scenarios used at 31 December 2022 for the years 2022 to 2025, for UAE which is the country where the Bank operates and therefore is the country that has a material impact on ECLs.

List of macro variables used	Definition	Range
Average Oil Price	Price Per Barrel, $	Between USD 29 and USD 110
Real Estate Abu Dhabi	Average residential price, AED/m2	Between 9,868 and 14,002
Real Estate Dubai	Average residential price, AED/m2	Between 11,898 and 15,914
EIBOR	%	Between 0.36% and 2.85%
Real GDP growth	%	Between -7.11% and 8.02%
Abu Dhabi Credit Default Swaps	%	Between 36.09% and 124.84%
Dubai Stock Price index	Index	Between 2,573 and 4,850
Abu Dhabi Stock Price index	Index	Between 4,141 and 6,380

There has been no significant sensitivity impact on ECL if the macroeconomic variables (defined above) were to change by the base case, upside and downside scenarios.

PD is an estimate at certain point in time which is derived based on model output of regression of historical observed default rates against macro-economic variables. These outputs are calibrated against through the cycle (TTC) PD which is currently used by the Bank, and assessed using rating tools tailored to various categories of counterparties and exposures. It helps the Bank to avoid procyclicality i.e. underestimation and overestimation if there is one of outlier data. These statistical models are based on market data, as well as internal data compromising both quantitative as well as qualitative factors. PD's are estimated considering the contractual maturities of exposures by building term structure of default using the cumulative survival probability.

LGD is an estimate of the loss magnitude arising on in case the customer defaults. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross-collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original effective profit rate (EPR) of the finance.

6. Financial risk management (continued)

6.1 Risk management structure (continued)

6.1.4 Measurement of ECL (continued)

EAD represent the expected exposures in the event of a default. The Bank derives the EAD from the current exposures to the counterparty and the potential changes to the current amount allowed under the contract including amortization. The EAD for the on balance sheet items are its gross carrying amount whereas for off balance sheet items such as letters of credits, financial and general guarantees undrawn non-cancellable finance commitments are estimated by applying credit conversion factors on the committed exposures.

The measurement of loss allowance is done on individual basis for corporate portfolio where as it is measured on collective basis for retail portfolio (measurement on collective basis is more practical for retail portfolio where portfolio constituents share similar portfolio attributes). In relation to the assessment of whether there has been a significant increase in credit risk it is necessary to perform the assessment on a collective basis as noted below.

Groupings based on shared risks characteristics:

When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type.

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Bank has in place policies, which govern the determination of eligibility of various collaterals, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Bank's major collaterals are mortgaged properties, investments, vehicles and deposits under lean.

The collateral is valued periodically, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

6. Financial risk management (continued)

6.1 Risk management structure (continued)

6.1.4 Measurement of ECL (continued)

Summarised information of the Bank's maximum exposure to credit risk before collateral held per class of financial asset (subject to impairment) is provided in following table:

	31 December 2022			31 December 2021		
	Gross carrying amount AED'000	**ECL allowance AED'000**	**Carrying amount AED'000**	Gross carrying amount AED'000	ECL allowance AED'000	Carrying amount AED'000
Balances with the Central Bank						
Stage 1	**2,034,734**	**-**	**2,034,734**	2,047,984	-	2,047,984
Due from banks and other financial institutions						
Stage 1	1,996,093	(5,764)	1,990,329	489,876	(275)	489,601
	1,996,093	**(5,764)**	**1,990,329**	489,876	(275)	489,601
Islamic financing and investing assets						
Stage 1	7,307,578	(26,115)	7,281,463	10,800,485	(33,394)	10,767,091
Stage 2	3,615,644	(80,805)	3,534,839	3,478,651	(88,681)	3,389,970
Stage 3	2,202,577	(384,761)	1,817,816	1,783,236	(778,668)	1,004,568
	13,125,799	**(491,681)**	**12,634,118**	16,062,372	(900,743)	15,161,629
Islamic investment securities at amortised cost						
Stage 1	**118,920**	**(2,881)**	**116,039**	-	-	-
Islamic investment securities at FVTOCI (*)						
Stage 1	2,077,608	(4,631)	2,072,977	2,362,983	(3,545)	2,359,438
Stage 3	54,506	(54,506)	-	54,506	(50,078)	4,428
	2,132,114	**(59,137)**	**2,072,977**	2,417,489	(53,623)	2,363,866
Other Islamic financial assets						
Stage 1	794,783	-	794,783	760,021	(1)	760,020
Stage 2	25,108	(3)	25,105	942	(2)	940
Stage 3	30,128	(19,190)	10,938	33,793	(16,849)	16,944
	850,019	**(19,193)**	**830,826**	794,756	(16,852)	777,904
Financial commitments and financial guarantees (off balance sheet exposures)						
Stage 1	315,448	(626)	314,822	463,710	(1,209)	462,501
Stage 2	83,699	(2,766)	80,933	63,762	(724)	63,038
Stage 3	30,213	(9,463)	20,750	19,357	(9,789)	9,568
	429,360	**(12,855)**	**416,505**	546,829	(11,722)	535,107
	20,687,039	**(591,511)**	**20,095,528**	22,359,306	(983,215)	21,376,091

(*) Impairment allowance is recognised under "Revaluation reserve of investments designated at FVTOCI"

Risks relating to credit-related commitments

The Bank makes available to its customers, guarantees and letters of credit which require that the Bank makes payments in the event that the customer fails to fulfil certain obligations to other parties. These instruments expose the Bank to a similar risk to financing and investing assets and these are monitored by the same control processes and policies.

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk

Concentration of credit risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. The Bank monitors concentrations of credit risk by industry sectors and geographic location. Identified concentration of credit risk is controlled and managed accordingly.

Concentration of credit risk

By geographic location

Based on the domicile of the counterparties, the following table sets out the Bank's main credit exposures at their carrying amounts, categorized by geographical region:

On balance sheet items

2022	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Balances with the Central Bank	2,034,734	-	-	2,034,734
Due from banks and other financial institutions	743,864	664	1,251,565	1,996,093
Islamic financing and investing assets:				
- Retail	3,127,849	-	-	3,127,849
- Corporate	9,336,063	40,727	330,525	9,707,315
- Treasury	673	-	-	673
- Investments	289,962	-	-	289,962
Islamic investment securities at amortised cost	118,920	-	-	118,920
Islamic investment securities at FVTOCI	746,812	1,229,841	96,324	2,072,977
Other Islamic financial assets	850,019	-	-	850,019
Total	17,248,896	1,271,232	1,678,414	20,198,542

Notes to the financial statements
For the year ended 31 December 2022

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Concentration of credit risk (continued)

By geographic location (continued)

On balance sheet items (continued)

2021	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Balances with the Central Bank	2,047,984	-	-	2,047,984
Due from banks and other financial institutions	381,621	970	107,285	489,876
Islamic financing and investing assets:				
- Retail	3,438,156	-	-	3,438,156
- Corporate	11,011,756	40,766	660,524	11,713,046
- Treasury	685	-	-	685
- Investments	910,485	-	-	910,485
Islamic investment securities at FVTOCI	1,021,262	1,268,826	73,778	2,363,866
Other Islamic financial assets	794,756	-	-	794,756
Total	19,606,705	1,310,562	841,587	21,758,854

Off balance sheet items

2022	**UAE AED'000**	**GCC AED'000**	**Other AED'000**	**Total AED'000**
Commitments	-	-	12,244	12,244
Letters of credit and guarantee	315,204	18,363	83,549	417,116
Total	**315,204**	**18,363**	**95,793**	**429,360**

2021	UAE AED'000	GCC AED'000	Other AED'000	Total AED'000
Commitments	99,317	-	-	99,317
Letters of credit and guarantee	301,975	18,363	127,174	447,512
Total	401,292	18,363	127,174	546,829

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Credit risk exposure per class of financial asset, internal rating and stage

An analysis of the Bank's credit risk exposure per class of financial asset (subject to impairment), internal rating and stage without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. These amounts in the table represent gross carrying amounts. For financial commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

- **Due from banks and other financial institutions**

	2022					2021
	Stage 1 12 months ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**POCI Life time ECL AED'000**	**Total AED'000**	Total AED'000
Normal	1,996,093	-	-	-	1,996,093	489,876
Gross carrying amount	**1,996,093**	-	-	-	**1,996,093**	489,876
Impairment allowance	(5,764)	-	-	-	(5,764)	(275)
Carrying amount	**1,990,329**	-	-	-	**1,990,329**	489,601

- **Islamic financing and investing assets**

	2022					2021
	Stage 1 12 months ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**POCI Life time ECL AED'000**	**Total AED'000**	Total AED'000
Normal	7,307,578	2,952,164	-	-	10,259,742	13,830,155
Watchlist	-	663,480	-	-	663,480	448,981
Substandard	-	-	1,304,160	-	1,304,160	247,032
Doubtful	-	-	178,111	-	178,111	197,592
Loss	-	-	720,306	-	720,306	1,338,612
Gross carrying amount	**7,307,578**	**3,615,644**	**2,202,577**	-	**13,125,799**	16,062,372
Impairment allowance	(26,115)	(80,805)	(384,761)	-	(491,681)	(900,743)
Carrying amount	**7,281,463**	**3,534,839**	**1,817,816**	-	**12,634,118**	15,161,629

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

- **Islamic investment securities at amortised cost**

	2022 Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000	Total AED'000	2021 Total AED'000
Normal	118,920	-	-	-	118,920	-
Gross carrying amount	**118,920**	-	-	-	**118,920**	-
Impairment allowance	(2,881)	-	-	-	(2,881)	-
Carrying amount	**116,039**	-	-	-	**116,039**	-

- **Islamic investment securities at FVTOCI**

	2022 Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000	Total AED'000	2021 Total AED'000
Normal	2,077,608	-	-	-	2,077,608	2,362,983
Loss	-	-	54,506	-	54,506	54,506
Gross carrying amount	**2,077,608**	-	**54,506**	-	**2,132,114**	2,417,489
Impairment allowance	(4,631)	-	(54,506)	-	(59,137)	(53,623)
Carrying amount	**2,072,977**	-	-	-	**2,072,977**	2,363,866

- **Other Islamic financial assets**

	2022 Stage 1 12 months ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Life time ECL AED'000	POCI Life time ECL AED'000	Total AED'000	2021 Total AED'000
Normal	794,783	25,108	-	-	819,891	760,021
Watchlist	-	-	-	-	-	942
Substandard	-	-	12,067	-	12,067	14,812
Doubtful	-	-	121	-	121	102
Loss	-	-	17,940	-	17,940	18,879
Gross carrying amount	**794,783**	**25,108**	**30,128**	-	**850,019**	794,756
Impairment allowance	-	(3)	(19,190)	-	(19,193)	(16,852)
Carrying amount	**794,783**	**25,105**	**10,938**	-	**830,826**	777,904

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

- **Financial commitments and financial guarantees**

	2022					2021
	Stage 1 12 months ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Life time ECL AED'000**	**POCI Life time ECL AED'000**	**Total AED'000**	Total AED'000
Normal	315,448	55,559	-	-	371,007	494,808
Watchlist	-	28,140	-	-	28,140	32,664
Substandard	-	-	256	-	256	1,503
Doubtful	-	-	-	-	-	256
Loss	-	-	29,957	-	29,957	17,598
Gross carrying amount	**315,448**	**83,699**	**30,213**	-	**429,360**	546,829
Impairment allowance	(626)	(2,766)	(9,463)	-	(12,855)	(11,722)
Carrying amount	**314,822**	**80,933**	**20,750**	-	**416,505**	535,107

Expected credit loss allowance

More information about the significant changes in the gross carrying amount of financial assets during the period that contributed to changes in the loss allowance, is provided in the table below:

Balances with the Central Bank

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
As at 1 January 2022	2,047,984	-	-	2,047,984
Change in exposure	(13,251)	-	-	(13,251)
As at 31 December 2022	**2,034,733**	-	-	**2,034,733**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 1 January 2021	1,623,413	-	-	1,623,413
Change in exposure	424,571	-	-	424,571
As at 31 December 2021	2,047,984	-	-	2,047,984

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Due from banks and other financial institutions

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
As at 1 January 2022	489,876	-	-	489,876
Change in exposure	228,765	-	-	228,765
New financial assets recognized	1,277,528	-	-	1,277,528
Financial assets derecognized	(76)	-	-	(76)
As at 31 December 2022	**1,996,093**	**-**	**-**	**1,996,093**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 1 January 2021	274,056	92,994	-	367,050
- Transfer to stage 1	11,299	(11,299)	-	-
Change in exposure	47,507	-	-	47,507
New financial assets recognized	409,188	-	-	409,188
Financial assets derecognized	(252,174)	(81,695)	-	(333,869)
As at 31 December 2021	489,876	-	-	489,876

Islamic financing and investing assets

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
As at 1 January 2022	10,800,485	3,478,651	1,783,236	16,062,372
- Transfer to stage 1	113,843	(113,843)	-	-
- Transfer to stage 2	(1,522,864)	1,820,586	(297,722)	-
- Transfer to stage 3	(247,646)	(1,129,518)	1,377,164	-
Change in exposure	(354,204)	(198,838)	(72,667)	(625,709)
New financial assets recognized	728,157	139,724	-	867,881
Financial assets derecognized	(2,210,193)	(381,118)	(129,699)	(2,721,010)
Write-offs	-	-	(457,735)	(457,735)
As at 31 December 2022	**7,307,578**	**3,615,644**	**2,202,577**	**13,125,799**

Notes to the financial statements
For the year ended 31 December 2022

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Islamic financing and investing assets (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 1 January 2021	10,050,713	6,028,113	2,102,443	18,181,269
- Transfer to stage 1	1,691,355	(1,691,355)	-	-
- Transfer to stage 2	(739,005)	946,960	(207,955)	-
- Transfer to stage 3	(27,247)	(604,211)	631,458	-
Change in exposure	(135,278)	(986,768)	(336,708)	(1,458,754)
New financial assets recognized	1,248,824	6,583	253	1,255,660
Financial assets derecognized	(1,288,877)	(220,671)	(68,203)	(1,577,751)
Write-offs	-	-	(338,052)	(338,052)
As at 31 December 2021	10,800,485	3,478,651	1,783,236	16,062,372

Islamic investment securities at amortised cost

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
As at 1 January 2022	-	-	-	-
New financial assets recognised	118,920	-	-	118,920
As at 31 December 2022	**118,920**	**-**	**-**	**118,920**

Islamic investment securities at FVTOCI

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
As at 1 January 2022	2,362,983	-	54,506	2,417,489
Change in exposure	(313,030)	-	-	(313,030)
New financial assets recognised	153,701	-	-	153,701
Financial assets derecognized	(126,046)	-	-	(126,046)
As at 31 December 2022	**2,077,608**	**-**	**54,506**	**2,132,114**

Notes to the financial statements
For the year ended 31 December 2022

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Islamic investment securities at FVTOCI (continued)

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 1 January 2021	1,115,880	-	54,506	1,170,386
Change in exposure	422,292	-	-	422,292
New financial assets recognized	1,095,860	-	-	1,095,860
Financial assets derecognized	(271,049)	-	-	(271,049)
As at 31 December 2021	2,362,983	-	54,506	2,417,489

Other Islamic financial assets

	Stage 1 AED'000	**Stage 2 AED'000**	**Stage 3 AED'000**	**Total AED'000**
As at 1 January 2022	760,021	942	33,793	794,756
- Transfer to stage 1	352	(352)	-	-
Change in exposure	33,705	24,518	1,027	59,250
New financial assets recognized	705	-	-	705
Write-offs	-	-	(4,692)	(4,692)
As at 31 December 2022	**794,783**	**25,108**	**30,128**	**850,019**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 1 January 2021	121,480	336	32,075	153,891
Change in exposure	(5,842)	606	1,720	(3,516)
New financial assets recognized	644,383	-	-	644,383
Write-offs	-	-	(2)	(2)
As at 31 December 2021	760,021	942	33,793	794,756

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Financial commitments and financial guarantees

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 1 January 2022	463,710	63,762	19,357	546,829
- Transfer to stage 2	(37,957)	37,957	-	-
- Transfer to stage 3	(12,359)	-	12,359	-
Change in exposure	(24,029)	(27,426)	-	(51,455)
New financial commitments and financial guarantees recognized	73,075	10,401	-	83,476
Financial commitments and financial guarantees derecognised	(146,992)	(995)	(1,503)	(149,490)
As at 31 December 2022	**315,448**	**83,699**	**30,213**	**429,360**

	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Total AED'000
As at 1 January 2021	358,656	-	12,768	371,424
- Transfer to stage 2	(28,762)	28,762	-	-
Change in exposure	80,842	35,000	6,589	122,431
New financial commitments and financial guarantees recognized	152,592	-	-	152,592
Financial commitments and financial guarantees derecognised	(99,618)	-	-	(99,618)
As at 31 December 2021	463,710	63,762	19,357	546,829

The tables below analyse the movement of the ECL allowance during the year per class of financial assets.

Due from banks and other financial institutions

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2022	275	-	-	275
Change in credit risk	945	-	-	945
New financial assets recognized	4,608	-	-	4,608
Financial assets derecognized	(64)	-	-	(64)
Loss allowance as at 31 December 2022	**5,764**	**-**	**-**	**5,764**

Notes to the financial statements
For the year ended 31 December 2022

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Due from banks and other financial institutions (continued)

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2021	-	365	-	365
Changes in the loss allowance				
- Transfer to stage 1	365	(365)	-	-
Change in credit risk	(314)	-	-	(314)
New financial assets recognized	224	-	-	224
Loss allowance as at 31 December 2021	275	-	-	275

Islamic financing and investing assets

	Stage 1 12-month ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loss allowance as at 1 January 2022	33,394	88,681	778,668	900,743
Changes in the loss allowance				
- Transfer to stage 1	1,190	(1,190)	-	-
- Transfer to stage 2	(384)	64,089	(63,705)	-
- Transfer to stage 3	(700)	(24,152)	24,852	-
Change in credit risk	(3,958)	(41,574)	117,871	72,339
New financial assets recognized	2,592	10,337	-	12,929
Financial assets derecognized	(6,019)	(15,386)	(15,190)	(36,595)
Write-offs and other transfers	-	-	(457,735)	(457,735)
Loss allowance as at 31 December 2022	**26,115**	**80,805**	**384,761**	**491,681**

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2021	32,292	91,805	849,728	973,825
Changes in the loss allowance				
- Transfer to stage 1	2,817	(2,817)	-	-
- Transfer to stage 2	(2,563)	6,143	(3,580)	-
- Transfer to stage 3	-	(10,473)	10,473	-
Change in credit risk	(165)	5,039	270,145	275,019
New financial assets recognized	8,965	1,587	19	10,571
Financial assets derecognized	(7,952)	(2,603)	(10,065)	(20,620)
Write-offs	-	-	(338,052)	(338,052)
Loss allowance as at 31 December 2021	33,394	88,681	778,668	900,743

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Islamic investment securities at amortised cost

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2022	-	-	-	-
New financial assets recognized	2,881	-	-	2,881
Loss allowance as at 31 December 2022	**2,881**	**-**	**-**	**2,881**

Islamic investment securities at FVTOCI

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2022	3,545	-	50,078	53,623
Change in credit risk	(1,674)	-	4,428	2,754
New financial assets recognised	3,353	-	-	3,353
Financial assets derecognized	(593)	-	-	(593)
Loss allowance as at 31 December 2022	**4,631**	**-**	**54,506**	**59,137**

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2021	2,247	-	50,078	52,325
Change in credit risk	1,331	-	-	1,331
New financial assets recognized	627	-	-	627
Financial assets derecognized	(660)	-	-	(660)
Loss allowance as at 31 December 2021	3,545	-	50,078	53,623

Other Islamic financial assets

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2022	1	2	16,849	16,852
Change in credit risk	-	1	7,033	7,034
Financial assets derecognized	(1)	-	-	(1)
Write-offs	-	-	(4,692)	(4,692)
Loss allowance as at 31 December 2022	**-**	**3**	**19,190**	**19,193**

Notes to the financial statements
For the year ended 31 December 2022

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Other Islamic financial assets (continued)

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2021	-	1	15,379	15,380
Change in credit risk	1	1	(1,934)	(1,932)
New financial assets recognised	-	-	6,480	6,480
Financial assets derecognized	-	-	(3,074)	(3,074)
Write-offs	-	-	(2)	(2)
Loss allowance as at 31 December 2021	1	2	16,849	16,852

Financial commitments and financial guarantees

	Stage 1 12-month ECL AED'000	**Stage 2 Life time ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Loss allowance as at 1 January 2022	1,209	724	9,789	11,722
Changes in the loss allowance				
- Transfer to stage 2	(31)	31	-	-
Change in credit risk	(139)	1,265	(110)	1,016
New financial commitments and financial guarantees recognized	470	765	28	1,263
Financial commitments and financial guarantees derecognised	(883)	(19)	(244)	(1,146)
Loss allowance as at 31 December 2022	**626**	**2,766**	**9,463**	**12,855**

	Stage 1 12-month ECL AED'000	Stage 2 Life time ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Loss allowance as at 1 January 2021	2,174	-	9,818	11,992
Changes in the loss allowance				
- Transfer to stage 2	(262)	262	-	-
Change in credit risk	(649)	462	(29)	(216)
New financial commitments and financial guarantees recognized	221	-	-	221
Financial commitments and financial guarantees derecognised	(275)	-	-	(275)
Loss allowance as at 31 December 2021	1,209	724	9,789	11,722

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Financial commitments and financial guarantees (continued)

As discussed above in the significant increase in credit risk section, under the Bank's monitoring procedures a significant increase in credit risk is identified before the exposure has defaulted, and at the latest when the exposure becomes 30 days past due. This is the case mainly for Islamic financing and investing assets to customers and more specifically for retail financing exposures because for corporate financing and other exposures there is more customer specific information available which is used to identify significant increase in credit risk. The table below provides an analysis of the gross carrying amount of Islamic financing and investing assets to customers by past due status:

	2022 Gross carrying amount AED'000	ECL AED'000	2021 Gross carrying amount AED'000	ECL AED'000
Normal or Past due up to 30 days	**11,031,650**	**134,349**	13,261,117	168,638
Past due 31 - 60 days	**437,458**	**1,475**	310,567	33,651
Past due 61 - 90 days	**49,395**	**1,613**	526,948	46,037
Past due 91 - 180 days	**167,426**	**5,995**	369,118	16,253
Past due of more than 180 days	**1,439,870**	**348,249**	1,594,622	636,164
	13,125,799	**491,681**	16,062,372	900,743

Modified financial assets

As a result of the Bank's forbearance activities financial assets might be modified. The following tables refer to modified financial assets where modification does not result in derecognition.

Financial assets (with loss allowance based on lifetime ECL) modified during the period are as follows:

	2022 AED'000	2021 AED'000
Gross carrying amount before modification	**876,880**	173,419
ECL allowance before modification	**(55,371)**	(24,452)
Net amortized cost before modification	**821,509**	148,967
Net amortized cost after modification	**821,509**	148,967

Collateral held as security and other credit enhancements

The Bank holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The Bank holds financial instrument of AED 2.2 billion for which no loss allowance is recognised because of collateral at 31 December 2022 (31 December 2021: AED 3.4 billion).

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Mortgage financing

The Bank holds residential and commercial properties as collateral for the mortgage financing it grants to its customers. The Bank monitors its exposure to retail mortgage financing using the LTV ratio, which is calculated as the ratio of the gross amount of the finance, or the amount committed for financing commitments, to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. At 31 December 2022 the carrying amount of credit impaired mortgage financing was AED 106 million (2021: AED 105 million) and the value of the respective collateral was AED 223 million (2021: AED 206 million).

Personal financing

The Bank's personal financing portfolio consists of unsecured financing and credit cards.

Corporate financing

The Bank requests collateral and guarantees for corporate financing. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance and their liquidity, leverage, management effectiveness and growth ratios. The valuation of collateral is closely monitored especially if the performance of financing deteriorates.

For credit-impaired financing the Bank obtains appraisals of collateral to inform its credit risk management actions. At 31 December 2022 the net carrying amount of credit impaired Islamic financing and investing assets to corporate customers was AED 1,464 million (2021: AED 1,604 million) and the value of the respective collateral was AED 1,662 million (2021: AED 948 million).

Islamic investments securities

Islamic investments securities

Islamic investments securities comprise of investment in Sukuk and equity shares.

The table below presents analysis of investments by external rating agency at 31 December 2022 and 2021:

	2022 AED'000	2021 AED'000
AA to AA-	**318,326**	236,297
A+ to A-	**555,035**	610,607
BBB+ to BBB-	**684,553**	628,628
BB+ to BB	**69,205**	216,024
B+ to B-	**305,496**	255,514
CCC	**29,804**	-
Unrated	**461,910**	699,588
	2,424,329	2,646,658

6. Financial risk management (continued)

6.2 Credit risk and concentrations of risk (continued)

Assets obtained by taking possession of collateral

The Bank obtained the following financial and non-financial assets during the year by taking possession of collateral held as security against Islamic financing and investing assets and held at the year end. The Bank has done revaluation of these properties and there is no indication of any impairment as of 31 December 2022. The Bank's policy is to realise collateral on a timely basis. The Bank does not use non-cash collateral for its operations.

	2022 AED'000	2021 AED'000
Property	**142,375**	920,383
Total assets obtained by taking possession of collateral	**142,375**	920,383

6.3 Market risk

Market risk arises from changes in market rates such as market price, foreign exchange and profit rate. Market risk management is designed to limit the amount of potential losses on open positions which may arise due to unforeseen changes in profit rates, currency rates and price movements. The Bank uses appropriate models, based on standard market practice, for the valuation of its positions and receives regular market information in order to regulate market risk.

The trading market risk framework comprises the following elements:

- Limits to ensure that risk-takers do not exceed aggregate risk and concentration parameters set by senior management.
- Independent mark-to-market valuations, reconciliation of positions and tracking of stop-losses for trading positions are performed on a timely basis.

The policies, procedures and the trading limits are set to ensure the effective implementation of the Bank's market risk policies. These policies are reviewed periodically to ensure they remain in line with the Bank's overall market risk policies.

Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to profit rate risk as a result of mismatches or gaps in the amounts of assets, liabilities and off-balance sheet instruments that mature or re-price in a given period.

The Bank is exposed to the effects of fluctuations in the prevailing levels of profit rates which arise from the Islamic financing and investing assets amounting to AED 12,634 million (2021: AED 14,924 million), investment securities amounting to AED 2,184 million (2021: AED 2,360 million), International Murabaha with Central bank AED 1,420 million (2021: AED 1,405 million), Due from banks and financial institutions AED 1,958 million (2021: AED 693 million), customer deposits amounting to AED 12,061 million (2021: AED 11,306 million) and AED 1,939 million (2021: AED 4,177 million) from due to banks and other financial institutions.

Notes to the financial statements
For the year ended 31 December 2022

6. Financial risk management (continued)

6.3 Market risk (continued)

***Profit rate risk* (continued)**

Sensitivity analysis

The amount mentioned in the table below reflect an equal but opposite potential effect on profit or loss based on assumed 50 basis point negative or positive movement in profit rates with all other variables being constant.

	2022		2021	
	Total AED'000	**Effect on profit/(loss) AED'000**	Total AED'000	Effect on profit/(loss) AED'000
Profit based asset	**17,941,522**	**41,985**	19,382,975	49,804
Profit based liabilities	**15,988,076**	**44,617**	15,483,645	40,972

Currency risk

The Bank is not significantly exposed to movements in foreign currency exchange rates as its asset and liabilities are mainly denominated in AED, GCC currency or USD.

Price risk

Price risk is the possibility that investment pricing will fluctuate, affecting the fair value of investments and other instruments that derive their value from a particular instrument or index of price.

The Bank manages the price risk by maintaining a diversified portfolio in terms of geographical and industry distribution.

The amount mentioned in the table below reflect an equal but opposite potential effect on profit before tax and investments based on assumed 5% strengthening or weakening prices with all other variable constant.

		Impact on equity	
	Benchmark	**2022 AED'000**	2021 AED'000
Islamic investments securities at FVTOCI	± 5%	**115,270**	132,333

6.4 Liquidity risk management

Liquidity risk is the risk that the Bank will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and availability of high quality liquid asset which could be used as collateral to secure additional funding, if required.

The primary tool for monitoring liquidity is the maturity mismatch analysis, which is monitored over successive time bands and across functional currencies. Guidelines are established for the cumulative negative cash flow over successive time bands.

Notes to the financial statements
For the year ended 31 December 2022

6. Financial risk management (continued)

6.4 Liquidity risk management (continued)

Maturity profile:

The maturity profile of the assets and liabilities at 31 December 2022 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Undated AED'000	Total AED'000
Assets							
Cash and balances with central bank	1,736,800	-	440,000	-	-	-	**2,176,800**
Due from banks and other financial institutions	507,510	626,757	336,146	519,916	-	-	**1,990,329**
Islamic financing and investing assets, net	1,684,939	1,529,765	1,273,953	4,219,547	3,925,914	-	**12,634,118**
Islamic investments securities at amortised cost	-	-	-	116,039	-	-	**116,039**
Islamic investments securities at FVTOCI	-	-	-	1,231,962	841,016	232,431	**2,305,409**
Investment in associates	-	-	-	-	-	88,703	**88,703**
Investment properties	-	-	-	-	-	381,064	**381,064**
Property and equipment	-	-	-	-	-	127,081	**127,081**
Other Islamic assets	148,126	68,528	-	-	-	1,074,166	**1,290,820**
Total assets	**4,077,375**	**2,225,050**	**2,050,099**	**6,087,464**	**4,766,930**	**1,903,445**	**21,110,363**
Liabilities and equity							
Islamic customers' deposits	3,988,686	1,322,517	6,461,218	4,238,560	320,995	-	**16,331,976**
Due to banks and other financial institutions	1,905,975	62,249	23,549	-	-	-	**1,991,773**
Other liabilities	140,741	28,912	-	-	-	101,884	**271,537**
Equity	-	-	-	-	-	2,515,077	**2,515,077**
Total liabilities and equity	**6,035,402**	**1,413,678**	**6,484,767**	**4,238,560**	**320,995**	**2,616,961**	**21,110,363**

6. Financial risk management (continued)

6.4 Liquidity risk management (continued)

Maturity profile:

The maturity profile of the assets and liabilities at 31 December 2021 based on the remaining period from the end of the reporting period to the contractual maturity date is as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Undated AED'000	Total AED'000
Assets							
Cash and balances with central bank	2,185,729	-	-	-	-	-	2,185,729
Due from banks and other financial institutions	290,739	16,403	52,252	130,207	-	-	489,601
Islamic financing and investing assets, net	2,096,089	1,089,630	1,564,992	5,822,318	4,588,600	-	15,161,629
Islamic investments securities at FVTOCI	-	-	18,366	1,382,049	963,451	282,792	2,646,658
Investment in associates	-	-	-	-	-	177,313	177,313
Investment properties	-	-	-	-	-	359,739	359,739
Property and equipment	-	-	-	-	-	124,057	124,057
Other Islamic assets	200,755	47,865	-	-	-	948,940	1,197,560
Total assets	4,773,312	1,153,898	1,635,610	7,334,574	5,552,051	1,892,841	22,342,286
Liabilities and equity							
Islamic customers' deposits	3,837,464	2,539,363	3,246,176	4,357,055	1,282,988	-	15,263,046
Due to banks and other financial institutions	2,728,677	360,327	1,072,109	50,000	-	-	4,211,113
Other liabilities	148,401	28,994	-	-	-	56,110	233,505
Equity	-	-	-	-	-	2,634,622	2,634,622
Total liabilities and equity	6,714,542	2,928,684	4,318,285	4,407,055	1,282,988	2,690,732	22,342,286

6. Financial risk management (continued)

6.4 Liquidity risk (continued)

During the year, the key measure used by the Bank for managing liquidity risk is the ratio prescribed by Central Bank. For this purpose, only high quality liquid assets were considered, which include cash and cash equivalents, Murabaha with Central Bank and debt securities (Sukuk) with 0% risk weight with a liquid market. Denominator comprise of total liabilities excluding provisions from total liabilities. This prescribed ratio was more stringent and comprehensive in managing the Bank's liquidity positions. The liquidity ratio at the reporting dates were as follows:

	2022	2021
At 31 December	**16%**	15%

6.5 Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Bank's operations and are faced by all business entities.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage, to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The Bank has established a framework of policies and procedures to identify, assess, control, manage and report risks. The Risk and Compliance Committee identifies and manages operational risk to reduce the likelihood of any operational losses. Where appropriate, risk is mitigated by way of insurance.

Compliance with policies and procedures is supported by periodic reviews undertaken by the Internal Audit Division. The results of these reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

6.6 Capital management

In February 2017, the Central Bank of the UAE adopted 'Basel III' and published enhanced regulatory capital requirements rules vide notifications 52 and 60/2017. In addition minimum capital requirements, Basel III introduces capital conservation buffer (CCB) and countercyclical buffers (CCyB) to induce banking organizations to hold capital in excess of regulatory minimums.

After adoption of Basel III, the regulatory capital is computed under the following items:

(i) Tier 1 capital, which is composed of;

- a - Common equity tier 1 (CET 1) - comprise of share capital, statutory reserves, retained earnings and accumulated other comprehensive income reserves,
- b - Additional tier 1 (AT 1)- comprise of any instrument which is not included in CET1.

(ii) Tier 2 capital, which includes general provisions (after implementation of IFRS - 9, the ECL classified that is classified under stage 1 and 2).

6. Financial risk management (continued)

6.6 Capital management (continued)

In addition to the above, all banks are required to maintain a capital conservation buffer (CCB) to encourage the banks to hold capital over and above the minimum requirements.

As per current requirement of the Central Bank of UAE, banks are required to maintain minimum capital levels as below:

	2022	2021
Capital element		
Minimum common equity tier 1 (CET 1) ratio	**7%**	7%
Minimum Tier I capital ratio	**8.5%**	8.5%
Minimum capital adequacy ratio	**10.5%**	10.5%
Capital conservation buffer (CCB)	**2.5%**	2.5%

The Bank's assets are risk weighted as to their relative credit, market, and operational risk. Credit risk and market risk includes both on and off-balance sheet risks. Credit risk is defined as the risk of default on a financial obligation that may arise from a customer failing to make required payments. Such risk includes loss of principal and profit, disruption to cash flows, and increased collection costs. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes profit rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

For Central Bank reporting purposes, the Bank is currently following the standardised measurement approach for credit, market and operational risk, as per Pillar 1 of Basel II.

The Bank's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Bank has followed a conservative dividend policy to increase capital from internal resources to meet future growth.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

6. Financial risk management (continued)

6.6 Capital management (continued)

The Bank is required to report capital resources and risk-weighted assets under the Basel III Pillar 1 framework, as shown in the following table:

	2022 AED'000	2021 AED'000
Tier 1 capital		
Share capital	**2,100,000**	2,100,000
Reserves	**276,130**	422,257
	2,376,130	2,522,257
Tier 2 capital		
General provision and fair value reserve	**191,168**	198,552
Total regulatory capital	**2,567,298**	2,720,809
Risk weighted assets		
Credit risk	**15,293,420**	15,884,151
Market risk	**42,813**	116,908
Operation risk	**1,136,484**	1,154,498
Total risk weighted assets	**16,472,717**	17,155,557
Capital adequacy ratio on regulatory capital	**15.59%**	15.86%
Capital adequacy ratio on Tier 1 capital	**14.42%**	14.70%

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by the optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

7. Classification of financial assets and liabilities

(a) The table below sets out the Bank's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December:

	At fair value AED'000	Amortised cost AED'000	Total AED'000
2022			
Financial assets:			
Cash and balances with the Central Banks	-	**2,176,800**	**2,176,800**
Due from banks and other financial institutions	-	**1,990,329**	**1,990,329**
Islamic financing and investing assets, net	-	**12,634,118**	**12,634,118**
Islamic investment securities at amortised cost	-	**116,039**	**116,039**
Islamic investments securities at FVTOCI	**2,305,409**	-	**2,305,409**
Other Islamic assets	**19**	**830,826**	**830,845**
Total	**2,305,428**	**17,748,112**	**20,053,540**
Financial liabilities:			
Islamic customers' deposits	-	**16,331,976**	**16,331,976**
Due to banks and other financial institutions	-	**1,991,773**	**1,991,773**
Other Islamic liabilities	**9**	**183,684**	**183,693**
Total	**9**	**18,507,433**	**18,507,442**
2021			
Financial assets:			
Cash and balances with the Central Banks	-	2,185,729	2,185,729
Due from banks and other financial institutions	-	489,601	489,601
Islamic financing and investing assets, net	-	15,161,629	15,161,629
Islamic investments securities at FVTOCI	2,646,658	-	2,646,658
Other Islamic assets	330	777,904	778,234
Total	2,646,988	18,614,863	21,261,851
Financial liabilities:			
Islamic customers' deposits	-	15,263,046	15,263,046
Due to banks and other financial institutions	-	4,211,113	4,211,113
Other Islamic liabilities	916	164,898	165,814
Total	916	19,639,057	19,639,973

8. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, differences can arise between book values and the fair value estimates. Underlying the definition of fair value is the presumption that the Bank is a going concern without any intention or requirement to materially curtail the scale of its operation or to undertake a transaction on adverse terms.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows.

- The fair values of Islamic financial assets and Islamic financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).

- The fair values of other Islamic financial assets and Islamic financial liabilities (excluding Islamic derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

- The fair values of Islamic derivative instruments are calculated using quoted prices. Where such prices are not available, a discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency Waad contracts are measured using quoted forward exchange rates and yield curves derived from quoted profit rates matching maturities of the contracts. Profit rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted profit rates.

Fair value of the Bank's financial assets and financial liabilities that are measured at fair value on a recurring basis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements
For the year ended 31 December 2022

8. Fair value measurement (continued)

The following table analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
At 31 December 2022				
Financial assets				
Islamic investments securities at FVTOCI	**2,180,171**	**-**	**125,238**	**2,305,409**
Positive fair value of Islamic derivative financial instruments	**19**	**-**	**-**	**19**
	2,180,190	**-**	**125,238**	**2,305,428**
Financial liabilities				
Negative fair value of Islamic derivative financial instruments	**9**	**-**	**-**	**9**
	9	**-**	**-**	**9**
At 31 December 2021				
Financial assets				
Islamic investments securities at FVTOCI	2,460,926	-	185,732	2,646,658
Positive fair value of Islamic derivative financial instruments	330	-	-	330
	2,461,256	-	185,732	2,646,988
Financial liabilities				
Negative fair value of Islamic derivative financial instruments	916	-	-	916
	916	-	-	916

Notional amount of Islamic derivative financial instruments is AED 1.44 billion (2021: AED 2.38 billion).

There were no transfers between Level 1 and 2 during the year. Below is reconciliation of Level 3 fair value measurement of financial assets:

	2022 AED'000	2021 AED'000
Balance at 1 January	**185,732**	186,558
Purchases during the year	**71,720**	25,707
Fair valuation loss in other comprehensive income	**(54,128)**	(12,840)
Disposals during the year	**(78,086)**	(13,693)
Total	**125,238**	185,732

Notes to the financial statements
For the year ended 31 December 2022

8. Fair value measurement (continued)

The effect of unobservable input on fair value measurement

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing one or more of the assumptions used by ± 10% to reasonably possible alternative assumptions would have the following effects.

	Effect on OCI	
	Favorable AED'000	Unfavorable AED'000
31 December 2022	**12,524**	**(12,524)**
31 December 2021	18,573	(18,573)

- In respect of those financial assets and financial liabilities measured at amortised cost, which are of short term nature (up to 1 year), management believes that carrying amount is equivalent to its fair value.
- In respect of Islamic investments securities, management has used the quoted price when available to assess fair value or used a present value calculation (PVC) based on market observable inputs.
- Islamic financing and investing assets are fair valued based on PVC which takes into account original underlying cash financing credit grading and expected prepayments. These features are used to estimate the present value of the expected cash flows and using risk-adjusted rates. However, this technique is subject to inherent limitations, such as estimation of the appropriate risk-adjusted rate, and different assumptions and inputs would yield different results.
- Fair values of deposits from banks and customers are estimated using the PVC methodology, applying the applicable rates that are offered for deposits of similar maturities and terms. The fair value of deposits payable on demand is considered to be the amount payable at the reporting date.

9. Cash and balances with the Central Bank

(a) The analysis of the Bank's cash and balances with the Central Bank as at 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
Cash on hand	**142,066**	137,745
Balances with the Central Bank:		
Current accounts	**137,241**	214,186
Reserve requirements with the Central Bank (note 9 (b))	**477,493**	428,798
International murabahat with the Central Bank	**1,420,000**	1,405,000
Total	**2,176,800**	2,185,729

The cash and balances with the Central Bank as at 31 December 2022 and 2021 were held within the U.A.E.

(b) The reserve requirements are kept with the Central Bank are not available for use in the Bank's day to day operations, and cannot be withdrawn without the approval of the Central Bank. The level of reserve required changes periodically in accordance with the directives of the Central Bank.

Notes to the financial statements
For the year ended 31 December 2022

10. Due from banks and other financial institutions

(a) The analysis of the Bank's due from banks and financial institutions as at 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
Current accounts	**37,981**	33,851
Islamic deposits with banks and financial institutions	**1,958,112**	456,025
	1,996,093	489,876
Less: Impairment loss allowance (Note 29)	**(5,764)**	(275)
Total	**1,990,329**	489,601

(b) The geographical analysis of the due from banks and financial institutions as at 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
Within the U.A.E.	**743,864**	381,558
Outside the U.A.E.	**1,246,465**	108,043
Total	**1,990,329**	489,601

11. Islamic financing and investing assets, net

(a) The analysis of the Bank's Islamic financing and investing assets, net, as at 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
Islamic financing assets		
Vehicles murabahat	**81,381**	46,001
Commodities murabahat	**4,519,240**	6,696,681
Total murabahat	**4,600,621**	6,742,682
Ijarahs	**8,609,685**	9,232,067
Istisna'a	**3,092**	2,130
Islamic credit cards	**27,011**	23,361
	13,240,409	16,000,240
Deferred income	**(694,563)**	(811,572)
Total Islamic financing assets	**12,545,846**	15,188,668
Islamic investing Assets		
Mudaraba	**-**	6,146
Wakalat	**579,953**	867,558
Total Islamic investing assets	**579,953**	873,704
Total Islamic financing and investing assets	**13,125,799**	16,062,372
Less: Impairment loss allowance (Note 29)	**(491,681)**	(900,743)
Total Islamic financing and investing assets, net	**12,634,118**	15,161,629

(b) The Bank, in the ordinary course of providing finance, holds collateral as security to mitigate credit risk associated with Islamic financing and investing assets. The collaterals include mortgage on land and buildings and lien on savings and investment deposits and equity. The estimated value of collaterals for Islamic financing and investing assets other than retail assets which are mainly asset-based financing, is as follows:

	2022 AED'000	2021 AED'000
Property and mortgages	**8,677,740**	8,963,217
Deposits and equities	**1,138,984**	3,191,754

11. Islamic financing and investing assets, net (continued)

(c) Analysis of Islamic financing and investing assets, net by industry group and geography as at 31 December 2022 and 2021 are as follows:

	Within the U.A.E. AED'000	Outside the U.A.E. AED'000	Total AED'000
2022			
Economic sector			
Government	**12,044**	**330,525**	**342,569**
Manufacturing and services	**3,224,291**	**40,727**	**3,265,018**
Trade	**742,485**	-	**742,485**
Real estate	**5,647,878**	-	**5,647,878**
Consumer home finance	**1,783,976**	-	**1,783,976**
Consumer financing	**1,343,873**	-	**1,343,873**
	12,754,547	**371,252**	**13,125,799**
Provision for impairment (Note 11(a))			**(491,681)**
Total			**12,634,118**
2021			
Economic sector			
Government	94,963	660,524	755,487
Manufacturing and services	4,439,947	40,766	4,480,713
Trade	698,994	-	698,994
Real estate	7,159,390	-	7,159,390
Consumer home finance	1,388,115	-	1,388,115
Consumer financing	1,579,673	-	1,579,673
	15,361,082	701,290	16,062,372
Provision for impairment (Note 11(a))			(900,743)
Total			15,161,629

12. Islamic investment securities at amortised cost

	2022 AED'000	2021 AED'000
Sukuk instruments	**118,920**	-
Less: Impairment loss allowance (Note 29)	**(2,881)**	-
	116,039	-

13. Islamic investment securities at FVTOCI

	2022 AED'000	2021 AED'000
Sukuk instruments	**2,072,977**	2,363,866
Equity instruments	**232,432**	282,792
	2,305,409	2,646,658

(a) The geographical analysis of the Islamic investments securities at fair value as at 31 December 2022 and 2021 is as follows:

	Within the U.A.E. AED'000	Other G.C.C. countries AED'000	Rest of the world AED'000	Total AED'000
2022				
Sukuk instruments at FVTOCI				
Quoted	**718,312**	**1,229,841**	**96,324**	**2,044,477**
Unquoted	**28,500**	**-**	**-**	**28,500**
	746,812	**1,229,841**	**96,324**	**2,072,977**
Equity instruments at FVTOCI				
Quoted	**135,694**	**-**	**-**	**135,694**
Unquoted	**41,650**	**-**	**55,088**	**96,738**
	177,344	**-**	**55,088**	**232,432**
Total	**924,156**	**1,229,841**	**151,412**	**2,305,409**
2021				
Sukuk instruments at FVTOCI				
Quoted	993,062	1,268,826	69,350	2,331,238
Unquoted	28,200	-	4,428	32,628
	1,021,262	1,268,826	73,778	2,363,866
Equity instruments at FVOCI				
Quoted	129,688	-	-	129,688
Unquoted equity instruments	71,250	26,766	55,088	153,104
	200,938	26,766	55,088	282,792
Total	1,222,200	1,295,592	128,866	2,646,658

(b) Analysis of Islamic investment securities at FVTOCI by industry group as at 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
Government	**1,259,879**	1,453,954
Manufacturing and services	**196,287**	181,280
Real estate	**76,338**	144,999
Financial institutions	**772,905**	866,425
Total	**2,305,409**	2,646,658

Notes to the financial statements
For the year ended 31 December 2022

14. Investment in associates

Information about the associates and the nature of the investment is shown below:

Name	Nature of Business	Country of incorporation	% Interest held	Measurement method
Makaseb Real Estate Investment SPV Limited	Real Estate Investments	United Arab Emirates	54%	Equity
Makaseb 3 Real Estate Investment SPV Limited	Real Estate Investments	United Arab Emirates	44%	Equity

The carrying amounts of these associates as at 31 December are as follows:

	2022 AED'000	2021 AED'000
Makaseb Real Estate Investment SPV Limited	-	79,369
Makaseb 3 Real Estate Investment SPV Limited	88,703	97,944
	88,703	177,313

Movement in investment in associates is as follows:

	2022 AED'000	2021 AED'000
At beginning of the year	177,313	177,556
Additions during the year	-	8,762
Share of results during the year	-	(8,265)
Impairment loss during the year	(88,610)	-
Distributions received during the year	-	(740)
Balance at the end of the year	88,703	177,313

15. Investment properties

(a) Movement in investment properties during the years ended 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
As at 1 January	359,739	343,393
Additions during the year	11,881	4,317
Change in fair value during the year (Note 26)	9,444	12,029
As at 31 December	381,064	359,739

Notes to the financial statements
For the year ended 31 December 2022

15. Investment properties (continued)

(b) Details of the Bank's investment properties and information about the fair value hierarchy as at 31 December 2022 and 31 December 2021 are as follows:

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Fair value AED'000
31 December 2022	-	-	**381,064**	**381,064**
31 December 2021	-	-	359,739	359,739

The Bank's investment properties consist of four commercial properties in the Emirate of Ajman. As at 31 December 2022 and 2021, the fair values of the properties are based on valuations performed by an accredited independent valuer who is a specialist in valuing these types of investment properties. A valuation model in accordance with that recommended by the International Valuation Standards Committee has been applied. The Bank has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

Using the discounted cash flow (DCF) method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a real property interest. To this projected cash flow series, a market-derived discount rate is applied to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate. The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related re-letting, redevelopment, or refurbishment. The appropriate duration is typically driven by market behavior that is a characteristic of the class of real property. Periodic cash flow is typically estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance cost, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

Significant increases (decreases) in estimated rental value and rent growth per annum in isolation would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in the long-term vacancy rate and discount rate (and exit yield) in isolation would result in a significantly lower (higher) fair value. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and discount rate (and exit yield), and an opposite change in the long-term vacancy rate.

Notes to the financial statements
For the year ended 31 December 2022

16. Property and equipment

	Leasehold improvements	Furniture, fittings and equipment	Vehicles	Computer equipment and software	Right-of-use assets	Capital work in progress*	Land and buildings	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cost								
At 1 January 2021	62,465	48,558	1,246	97,741	17,610	20,958	68,886	317,464
Additions	69	372	569	85	1,268	15,760	-	18,123
Transfers	4,306	713	-	11,130	-	(16,149)	-	-
Disposals	-	-	(422)	-	(811)	-	-	(1,233)
At 31 December 2021	66,840	49,643	1,393	108,956	18,067	20,569	68,886	334,354
Additions	22	645	590	5,593	8,035	15,194	-	30,079
Transfers	1,966	2,333	-	10,993	-	(15,292)	-	-
Disposals	(1,773)	-	(316)	-	(5,227)	-	-	(7,316)
At 31 December 2022	**67,055**	**52,621**	**1,667**	**125,542**	**20,875**	**20,471**	**68,886**	**357,117**
Accumulated depreciation								
At 1 January 2021	51,669	37,908	1,034	79,692	7,319	-	8,701	186,323
Charge for year	4,224	3,520	130	10,414	5,248	-	1,516	25,052
Disposals	-	-	(267)	-	(811)	-	-	(1,078)
At 31 December 2021	55,893	41,428	897	90,106	11,756	-	10,217	210,297
Charge for year	3,448	3,575	163	12,882	5,311	-	1,516	26,895
Disposals	(1,613)	-	(316)	-	(5,227)	-	-	(7,156)
At 31 December 2022	**57,728**	**45,003**	**744**	**102,988**	**11,840**	-	**11,733**	**230,036**
Net book value								
At 31 December 2022	**9,327**	**7,618**	**923**	**22,554**	**9,035**	**20,471**	**57,153**	**127,081**
At 31 December 2021	10,947	8,215	496	18,850	6,311	20,569	58,669	124,057

* Capital work in progress comprises cost incurred on IT projects.

17. Other Islamic assets

	2022 AED'000	2021 AED'000
Accrued income on Islamic financing and investing assets	**81,359**	78,508
Accrued income on Islamic investment securities	**19,403**	23,275
Prepaid expenses	**5,708**	23,145
Staff advances (Soft finance)	**13,960**	10,431
Acceptances (Note 20)	**2,540**	-
Foreign currency forward contracts	**19**	330
Assets acquired in settlement of Islamic financing and investing assets (*)	**429,782**	299,520
Financial assets acquired in settlement of Islamic financing and investing assets (**)	**644,383**	644,383
Other	**112,859**	134,820
	1,310,013	1,214,412
Less: Impairment loss allowance (Note 29)	**(19,193)**	(16,852)
	1,290,820	1,197,560

(*) During the year, the Bank charged an impairment of AED 12.1 million (2021: Nil) against Assets acquired in settlement of Islamic financing and investing assets.

(**) On 22 December 2021, the Bank signed a settlement agreement with a customer wherein both parties agreed that the Bank acquires the assets of the customer in settlement of the financial obligation. The fair value of those assets as at the settlement date amounted to AED 644 million. Also, along with this settlement agreement, a separate agreement was signed with the customer to lease-back and operate the real estate properties with an option to buy back the assets after the end of the third year at a pre-determined price. Accordingly, the Bank has accounted for these assets as financial assets in accordance with IFRS 9 – Financial Instruments.

18. Islamic customers' deposits

(a) The analysis of the Islamic customers' deposits as at 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
Current accounts	**4,038,007**	3,580,845
Mudarba deposits:		
Savings accounts	**358,124**	392,910
Term deposits	**22,468**	23,164
	4,418,599	3,996,919
Wakala deposits	**11,493,360**	10,890,350
Escrow accounts	**337,179**	316,421
Margin accounts	**82,838**	59,356
	16,331,976	15,263,046

All Islamic customers' deposits as at 31 December 2022 and 2021 were held within the U.A.E.

19. Due to banks and other financial institutions

(a) The analysis of the due to banks and other financial institutions as at 31 December 2022 and 2021 is as following:

	2022 AED'000	2021 AED'000
Current accounts	**53,139**	33,892
Investment deposits	**1,938,634**	4,177,221
Total	**1,991,773**	4,211,113

(b) The geographical analysis of the Bank's due to banks and other financial institutions as at 31 December 2022 and 2021 is as follows:

	2022 AED'000	2021 AED'000
Within the U.A.E.	**1,117,367**	1,080,102
Outside the U.A.E.	**874,406**	3,131,011
Total	**1,991,773**	4,211,113

20. Other liabilities

	2022 AED'000	2021 AED'000
Accrued profit on Islamic customers' deposits and placements by banks	**115,665**	115,991
Provisions for staff salaries and benefits	**35,398**	21,991
Managers' cheques	**43,314**	38,198
Acceptances (Note 17)	**2,540**	-
Lease liability	**8,196**	5,962
Impairment loss allowance on financial commitments and financial guarantees (Note 29)	**12,855**	11,722
Other	**53,569**	39,641
	271,537	233,505

21. Share capital

	2022 AED'000	2021 AED'000
***Issued and fully paid*:**		
2,100,000,000 (31 December 2021: 2,100,000,000) shares of AED 1 each	**2,100,000**	2,100,000

22. Statutory reserve

The U.A.E. Commercial Companies Law and the Articles of Association of the Bank, require that 10% of the profit attributable to the shareholders is transferred to a non-distributable statutory reserve until this reserve equals 50% of the paid-up share capital. This reserve is not available for distribution other than in circumstances stipulated by law.

23. General impairment reserve

In accordance with the requirements of the Central Bank of the U.A.E. the excess of the credit impairment provisions calculated in accordance with CBUAE requirements over the ECL allowance calculated under Stage 1 and Stage 2 as per IFRS 9 is transferred to 'General impairment reserve' as an appropriation from retained earnings. This reserve is not available for payment of dividends.

24. Income from Islamic financing and investing assets

	2022 AED'000	2021 AED'000
Income from Ijarah	**398,719**	463,490
Income from Murabaha	**243,974**	232,075
Income from Mudaraba	**-**	172
Income from Wakala	**31,164**	10,551
Income from Istisna financing	**93**	80
	673,950	706,368

25. Income from Islamic investment securities

	2022 AED'000	2021 AED'000
Income from Islamic investment securities at FVTOCI	**85,940**	82,185
Income from Islamic investment securities at amortised cost	**4,690**	-
Realized (loss)/ gain on disposal of Islamic investment securities at FVTOCI	**(8,370)**	12,977
Other income	**1,332**	853
Total	**83,592**	96,015

26. Fees, commission and other income

	2022 AED'000	2021 AED'000
Processing and evaluation fees	**17,558**	9,973
Arrangement fee	**4,863**	7,073
Foreign exchange income	**34,515**	12,057
Trade related commission and fees	**4,817**	2,260
Investment agent fees	**10,405**	13,298
Deposit and credit card fees	**7,377**	2,877
Rental income	**69,117**	34,804
Fair value gain on investment properties (Note 15)	**9,444**	12,029
Other	**26,692**	11,649
Total	**184,788**	106,020

27. Staff costs

	2022 AED'000	2021 AED'000
Salaries and allowances	**122,077**	118,358
Other staff related cost	**103,033**	78,442
	225,110	196,800

28. General and administrative expenses

	2022 AED'000	2021 AED'000
Premises and equipment maintenance costs	**17,508**	13,713
Brokerage and commissions	**1,865**	7,371
Communication expenses	**4,678**	5,495
Insurance expenses	**9,975**	5,257
Legal and professional fees	**3,448**	3,999
Security services including cash in transit services	**2,611**	2,775
Software license	**1,741**	2,725
License fees	**3,302**	2,224
Printing and stationary	**1,137**	1,632
Marketing, designing and product development expenses	**2,727**	853
Rental expenses	**1,065**	796
Finance lease charges	**233**	171
Others	**18,699**	15,679
	68,989	62,690

29. Impairment allowance of financial assets

The movement in impairment allowance by financial asset category is as follows:

	Opening balance AED'000	Net charge during the year AED'000	Write-off, net of recoveries and other transfers AED'000	Closing balance AED'000	Net charge 31 December 2021 AED'000
Due from banks and other financial institutions	**275**	**5,489**	**-**	**5,764**	(90)
Islamic financing and investing assets	**900,743**	**48,673**	**(457,735)**	**491,681**	264,970
Islamic investment securities at amortised cost	**-**	**2,881**	**-**	**2,881**	-
Islamic investment securities at FVTOCI (*)	**53,623**	**5,514**	**-**	**59,137**	1,298
Other Islamic assets	**16,852**	**7,033**	**(4,692)**	**19,193**	1,474
Financial commitments and financial guarantees	**11,722**	**1,133**	**-**	**12,855**	(270)
Total	**983,215**	**70,723**	**(462,427)**	**591,511**	267,382

(*) Impairment allowance is recognised under "Revaluation reserve of investments designated at FVTOCI".

The credit impairment provisions calculated in accordance with CBUAE requirements were in excess of ECL allowance calculated under IFRS 9 as explained in note 23.

30. Basic and diluted earnings per share

Earnings per share are computed by dividing the profit for the year by the weighted average number of shares outstanding during the year as follows:

	2022	2021
Basic earnings per share		
Profit for the year ended (AED'000)	**162,066**	116,160
Weighted average number of shares outstanding at 31 December (in thousands)	**2,100,000**	2,100,000
Basic and diluted earnings per share (AED)	**0.077**	0.055

As at 31 December 2022 and 2021, there were no potential dilutive shares outstanding.

31. Cash and cash equivalents

	2022 AED'000	2021 AED'000
Cash and balances with the Central Bank (Note 9)	**2,176,800**	2,185,729
Due from banks and other financial institutions (original maturity less than three months)	**406,590**	401,505
	2,583,390	2,587,234
Less: Statutory deposit with the Central Bank (Note 9)	**(477,493)**	(428,798)
Less: International Murabahat with the Central Bank (original maturity more than three months)	**(980,000)**	-
	1,125,897	2,158,436

32. Related parties transactions

(a) Certain "related parties" (such as directors, key management personnel and major shareholders of the Bank and companies of which they are principal owners) are customers of the Bank in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including profit rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

(b) The Bank is controlled by Ajman Government who owns 26% (2021: 26%) of the issued and paid capital.

Transactions

Transactions with related parties are shown below:

	2022			2021		
	Major shareholders AED'000	**Director and other related parties AED'000**	**Total AED'000**	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Depositors' share of profit	**111,945**	**848**	**112,793**	95,686	728	96,414
Income from Islamic financing and investing assets	**11,013**	**20,106**	**31,119**	42,152	9,109	51,261

During the year, AED 1.5 million (31 December 2021: AED 1 million) was approved as Directors' remuneration by the shareholders at the annual general meeting held on the 5th April 2022 and paid through income statement.

32. Related parties transactions (continued)

Balances

Balances with related parties at the reporting date are shown below:

	2022			2021		
	Major shareholders AED'000	**Director and other related parties AED'000**	**Total AED'000**	Major shareholders AED'000	Director and other related parties AED'000	Total AED'000
Islamic financing and investing assets	**255,764**	**539,744**	**795,508**	1,118,273	481,428	1,599,701
Customers' deposits	**4,644,762**	**113,859**	**4,758,621**	4,040,407	90,981	4,131,388

Compensation of management personnel

Key management compensation is as shown below:

	2022 AED'000	2021 AED'000
Short term employment benefits	**8,445**	9,720
Terminal benefits	**387**	426
Total	**8,832**	10,146

33. Contingencies and commitments

Capital commitments

At 31 December 2022, the Bank had outstanding capital commitments of AED 49 million (31 December 2021: AED 41 million), which will be funded within the next twelve months.

Credit related commitments and contingencies

Credit related commitments include commitments to extend credit which are designed to meet the requirements of the Bank's customers.

The Bank had the following credit related commitments and contingent liabilities:

	2022 AED'000	2021 AED'000
Commitments to extend credit	**12,244**	99,317
Letters of credit	**116,616**	155,662
Letters of guarantee	**300,500**	291,850
	429,360	546,829

Legal claims

Litigation is a common occurrence in the banking industry due to the nature of the business. The Bank has an established protocol for dealing with such claims, many of which are beyond its control. At the reporting date, the Bank has several unresolved legal claims and based on the advice from legal counsel, management believes that these claims will not result in any material financial loss to the Bank.

34. Segment analysis

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance.

The Bank has three main business segments:

- Consumer banking – comprising personal banking and priority banking where various products are offered like private customer current accounts, savings accounts, deposits, credit and debit cards, personal finance and house mortgage;
- Corporate banking - incorporating transactions with corporate bodies including government and public bodies and comprising of Islamic financing and investing assets, deposits and trade finance transactions;
- Investment Banking – comprising investment solutions, wealth management, leasing of commercial and residential properties; and
- Treasury - incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the Central Bank of the UAE.

As the Bank's segment operations are all financial with a majority of revenues deriving income from Islamic financing and investing assets and the Executive Committee relies primarily on net income to assess the performance of the segment, the total income and expense for all reportable segments is presented on a net basis.

The Bank's management reporting is based on a measure of operating profit comprising income from Islamic financing and investing assets, impairment charges on Islamic financing and investing assets, net fee and commission income, other income and expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

34. Segment analysis (continued)

Segment results of operations

The segment information provided to the Board for the reportable segments is as follows:

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investment banking AED'000	Other AED'000	Total AED'000
At 31 December 2022						
Net income from Islamic financing and investing assets	149,254	276,364	(45,885)	6,393	-	**386,126**
Income from Islamic investment securities	-	-	70,535	13,057	-	**83,592**
Impairment of investment in associates	-	-	-	(88,610)	-	**(88,610)**
Impairment charges on financial and non-financial assets	(13,435)	(50,239)	(5,954)	(2,484)	(10,724)	**(82,836)**
Fees, commission and other income	36,340	35,047	22,947	98,966	(8,512)	**184,788**
Staff costs	(51,246)	(17,818)	(831)	(1,714)	(153,501)	**(225,110)**
General and administrative expenses	(33,226)	(8,150)	(2,236)	(23,440)	(1,937)	**(68,989)**
Depreciation of property and equipment	-	-	-	-	(26,895)	**(26,895)**
Operating profit/(loss)	**87,687**	**235,204**	**38,576**	**2,168**	**(201,569)**	**162,066**
Segment assets	**3,029,670**	**11,376,399**	**3,772,131**	**1,766,980**	**1,165,183**	**21,110,363**
Segment liabilities	**5,562,341**	**10,914,199**	**1,804,079**	**-**	**314,667**	**18,595,286**

Notes to the financial statements
For the year ended 31 December 2022

34. Segment analysis (continued)

Segment results of operations (continued)

	Consumer banking AED'000	Corporate banking AED'000	Treasury AED'000	Investment banking AED'000	Other AED'000	Total AED'000
At 31 December 2021						
Net income from Islamic financing and investing assets	128,392	341,593	(14,873)	19,202	-	474,314
Income from Islamic investment securities	-	-	80,952	15,063	-	96,015
Share of loss of associates	-	-	-	(8,265)	-	(8,265)
Impairment charges on financial and non-financial assets	5,379	(271,594)	(1,107)	(60)	-	(267,382)
Fees, commission and other income	22,788	19,321	12,832	54,462	(3,383)	106,020
Staff costs	(49,277)	(10,417)	(3,631)	(5,689)	(127,786)	(196,800)
General and administrative expenses	(32,002)	(6,610)	(490)	(3,275)	(20,313)	(62,690)
Depreciation of property and equipment	-	-	-	-	(25,052)	(25,052)
Operating profit/(loss)	75,280	72,293	73,683	71,438	(176,534)	116,160
Segment assets	3,315,074	11,002,906	4,170,981	1,723,181	2,130,144	22,342,286
Segment liabilities	4,272,585	9,429,967	1,017,863	2,378,362	2,608,887	19,707,664

Revenue from major products and services

Revenue from major products and services are disclosed in Note 24 in the financial statements.

Information about major customers

No single customer contributed 10% or more to the Bank's revenue for both years ended 31 December 2022 and 2021.

35. Maturity profile of financial liabilities

	Up to 1 year AED'000	2022 1 - 5 years AED'000	Total AED'000
Islamic customers' deposits	**12,093,416**	**4,238,560**	**16,331,976**
Due to banks and other financial institutions	**1,991,773**	**-**	**1,991,773**
Other liabilities	**183,693**	**-**	**183,693**
	14,268,882	**4,238,560**	**18,507,442**
Commitments and contingent liabilities	**219,410**	**209,950**	**429,360**

	Up to 1 year AED'000	2021 1 - 5 years AED'000	Total AED'000
Islamic customers' deposits	9,623,003	5,640,043	15,263,046
Due to banks and other financial institutions	4,161,113	50,000	4,211,113
Other liabilities	165,814	-	165,814
	13,949,930	5,690,043	19,639,973
Commitments and contingent liabilities	326,716	220,113	546,829

36. Social contributions

The social contribution (including donations and charities) made during the year amounted to AED 0.2 million (2021: AED 0.4 million).

37. Comparative information

Certain comparative amounts in the notes to the financial statements have been adjusted to confirm with the current period's presentation.

38. Taxation

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax (CT) regime in the UAE. The CT regime will become effective for accounting periods beginning on or after 1 June 2023.

Generally, UAE businesses will be subject to a 9% CT rate. A rate of 0% will apply to taxable income not exceeding a particular threshold to be prescribed by way of a Cabinet Decision (expected to be AED 375,000 based on information released by the Ministry of Finance). In addition, there are several other decisions that are yet to be finalised by way of a Cabinet Decision that are significant in order for entities to determine their tax status and the taxable income. Therefore, pending such important decisions by the Cabinet as at 31 December 2022, the Bank has considered that the Law is not substantively enacted from IAS 12 – Income Taxes perspective as at 31 December 2022. The Bank shall continue to monitor the timing of the issuance of these critical cabinet decisions to determine its tax status and the application of IAS 12 – Income Taxes.

The Bank is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective, once the critical cabinet decisions are issued.

39. Approval of financial statements

The financial statements were approved by the Board of Directors and authorized for issue on 9 February 2023.